



AGENDA AUDIT PANEL

Date: THURSDAY, 12 JULY 2018 at 7.00 pm

**Committee Room 4
Civic Suite
Lewisham Town Hall
London SE6 4RU**

**Enquiries to: Olga Cole
Telephone: 0208 314 8577 (direct line)**

COUNCILLORS

Councillor Alan Hall
Councillor Mark Ingleby
Councillor Louise Krupski
Councillor Paul Maslin
Councillor Joan Millbank
Councillor James Rathbone

Independent Members

Carole Murray
Ian Pleace
Stephen Warren
1 Vacancy

This meeting is an open meeting and all items on the agenda may be audio recorded and/or filmed

Members are summoned to attend this meeting

**Ian Thomas
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 4 July 2018**



INVESTOR IN PEOPLE

The public are welcome to attend our committee meetings, however occasionally committees may have to consider some business in private. Copies of reports can be made available in additional formats on request.

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Agenda Item 1

AUDIT PANEL		
Report Title	ELECTION OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 12 July 2018

Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2018/19

Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 12 July 2018

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 20 March 2018 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Tuesday, 20 March 2018 at 7.00 pm

PRESENT: Councillors Jonathan Slater Chair, Mark Ingleby, Maja Hilton, and Carole Murray, Ian Pleace and Stephen Warren

Apologies for absence were received from Councillor Susan Wise

6. Minutes

The Chair welcomed the new External Auditors from Grant Thornton; Andy Ayre, Paul Grady and Paul Jacklin.

RESOLVED that the minutes of the open meeting held on 14 September 2017 was agreed as a correct record.

7. Declarations of Interests

None received.

8. Update on 2017/18 Closing of Accounts and External Audits

Paul Grady, Engagement Lead, Grant Thornton introduced the External Audit Plan. He highlighted that there were no specific significant risk which should be of concern. Those listed under significant risk related to large balances, and these were usually down in every audit.

Responding to a question from Mr Pleace, Mr Grady explained that the External Audit Team had been replaced because of a standard rotation process to safeguard against familiarity. Mr Pleace asked if they believed changing the systems would be an execution risk, and was told any new system brings in a degree of risk and the mitigation would depend on the planning and preparation done by management to offset the risk.

In responding to a question from Councillor Ingleby, Mr Ayre explained levels 2 and 3 of the pension audit. Mr Ayre informed Panel Members that Place Analytic were the largest provider for external audit and their system was used as an information analytical tool. With huge database this enabled clients to analyse data and use the information for Councils locally. Mr Ayre said they provide the raw data and it was up to Councils how they use this information.

Councillor Hilton said she was concerned that the timeframe set to complete the audit was ambitious as was proven last year during the trial. Mr Grady responded that this sort of anxiety was expected especially with a new system but because of the amount of planning that had been done and the relationship between experienced officers the timetable could be achieved. He added that the External Audit Team have done similar work with other Councils and the NHS, and they would usually finish by mid May. The Head of Financial Services explained that over the last couple of years officers had closed early, and it could be done again.

Andy Ayre, Audit Manager, Grant Thornton introduced the Pension Fund Audit Plan and explained how levels 2 and 3 investments were valued and the risks associated with these two levels.

RESOLVED that the report be noted.

9. Grant Thornton's Certification of Work for LBL for Year Ended 31 March

Mr Ayre introduced the report. Panel Members noted that it was a requirement for Grant Thornton to certify the Housing Benefit subsidy claim submitted by Lewisham Council. It was noted that the certification typically take place six to nine months after the claim period and represented a final but important part of the process to confirm the Council's entitlement to funding.

Panel Members asked if the incident was similar to previous ones and were told that this was similar going back 3 years, and the situation had become complex because of the economy and zero hour contracts. Panel Members asked what was being done to address the error and were told that Housing Benefit officers were looking at quality control. The Audit Manager also stated that for 2018/19 the housing benefits team would be analysing the errors to see what controls could be put in place to address them. The Head of Financial Services said officers were also looking at putting in robotics to deal with these errors.

RESOLVED that the report be noted.

10. Risk Management Strategy

The Head of Corporate Resources introduced the report and explained the reason for the report and the important changes that had been made.

Carole Murray asked whether there was a separate policy document, and was told it was just one document. Stephen Warren noted table 5 of the report that measured success and the objectives that measured success. He asked how officers assessed the completeness of the risk registers.

The Head of Corporate Resources said measurements did not take place, as the Internal Control Board review them. It was noted that Directors have to make the changes they want. He said the risks were published in the Management Report which goes to Mayor and Cabinet bimonthly. The Head of Corporate Resources said the report would state the action being taken and plans for the future. It was noted that the measures of success would not be formally recorded in the report.

In response to a question the Head of Corporate Resources said the activity was what was being measured. He acknowledged that the objectives in the report were not consistent and said officers would tidy up the report. The Head of Corporate Resources explained that examples had been given in the register as risk descriptors, and these rated highly on the risk register to encourage people to think broadly about the worst that could happen.

Action >>>>> Head of Corporate Resources

RESOLVED that the report be noted.

11. Internal Audit Update and Plan

The Head of Corporate Resources introduced the report which covered progress against the internal audit plans, annual audit plans for 2018/19, and progress of implementation of internal audit recommendations. He highlighted that officers were 4/5 weeks behind the intended point but the audit would be completed by June 2018.

The Audit Manager informed the Panel that the audit plan would change significantly next year as a new team would be in place, plus a new finance system, as officers wanted to ensure the finance system was right.

The Head of Financial Services informed Panel Members that officers were looking at rebasing the Oracle cloud program. He said the original plan was to go live in April 2018, but the plan now was that core Human Resources, Organogram Plan, ERP- Finance and Procurement would go live in May 2018. Payroll and the rest of Human Resources would probably be a soft go live in July 2018 with a plan to go live in October 2018. Panel Members were told this was mainly because data migration was causing a lot of problems.

Panel Members noted that there were a lot of things to put in place; key users training, user acceptance, and integration testing. Budget holders were receiving information to ensure they know what they need to do. The Head of Financial Services said they have a one week gap to test things, and this would prove very challenging.

Mr Pleace said he was confident the system would not go live in May, there was a lot of work to be done and by nature these things were problematic. He said one week to test things was unrealistic. Mr Pleace said he was concerned that Panel Members were not getting enough information on financial data. Stephen Warren said it should be the same information budget holders receive. The Head of Financial Services said if Panel Members needed additional reports officers were happy to provide these. He said data was important to this work, and the business readiness could be challenging. Mr Pleace said data and business readiness were key to the process.

Carole Murray said she could understand officers not being able to do more testing but she hoped they were adding value to the work, and maybe in the annual report officers could say how much audit hours had been involved.

Councillor Ingleby asked how much it cost to review the new school trading website, and officers said this figure could be added to the audit. Officers said they were not trying to audit management decisions but wanted to see how they got to their decision.

Councillor Ingleby asked whether the information on the types of controls and recommendations made was comprehensive, and was told the overall analysis would be done on the annual assurance report. Councillor Ingleby asked whether this report would be going to the Pension Board, it was noted that this was the case.

Mr Warren said he was concerned that as stated in paragraph 9.3 of the report managers were closing off recommendations as completed when they have not done the work. Officers responded that sometimes managers think they had done or completed the work, but when checked by the audit team, auditors realise the work was not completed, they then reopen it. Officers emphasised they were trying to ensure all work was completed. Mr Warren requested future reports to show high priority recommendations, this was agreed.

Action >>>>> Head of Corporate Resources.

Carole Murray asked whether officers thought schools had adequate support from their finance section to do their recommendations. The Head of Audit said the new management system would be available to schools and this would assist them in doing their recommendations. The Head of Corporate Resources told Panel Members that officers do follow up work which involved the school improvement team. He said there was a very good network of support for schools.

Carole Murray said she was disappointed with the information on the audit plan. She asked how many in-house days and external days had been put into the work. She also said there were a lot of acronyms which were confusing. Carole Murray said it would be helpful if some indication was given as to why this particular audit was selected. The Audit Manager apologised and said at the time the plan was done officers were not sure how many people would be in the audit team, but the June report would have all these information.

Action >>>>> Head of Corporate Resources

Mr Warren said Independent Panel Members would like to see the risk register, and was told the recent Management Report that went to the last Mayor and Cabinet meeting included the risk register, and this would be sent to them as soon as possible.

Action >>>>> Committee Clerk

RESOLVED that the report be noted.

The Chair said this was the last Panel meeting of the current administration and Councillors Hilton, Jacca and Klier would be leaving the Council. He thanked them for all their contribution to the Audit Panel.

Meeting ended: 8:10pm

Chair.....

Agenda Item 3

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 3
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 12 July 2018

Members are asked to declare any personal interest they have in any item on the agenda.

1 Personal interests

There are three types of personal interest referred to in the Council's Member Code of Conduct :-

- (1) Disclosable pecuniary interests
- (2) Other registerable interests
- (3) Non-registerable interests

2 Disclosable pecuniary interests are defined by regulation as:-

- (a) Employment, trade, profession or vocation of a relevant person* for profit or gain
- (b) Sponsorship –payment or provision of any other financial benefit (other than by the Council) within the 12 months prior to giving notice for inclusion in the register in respect of expenses incurred by you in carrying out duties as a member or towards your election expenses (including payment or financial benefit from a Trade Union).
- (c) Undischarged contracts between a relevant person* (or a firm in which they are a partner or a body corporate in which they are a director, or in the securities of which they have a beneficial interest) and the Council for goods, services or works.
- (d) Beneficial interests in land in the borough.
- (e) Licence to occupy land in the borough for one month or more.

- (f) Corporate tenancies – any tenancy, where to the member’s knowledge, the Council is landlord and the tenant is a firm in which the relevant person* is a partner, a body corporate in which they are a director, or in the securities of which they have a beneficial interest.
- (g) Beneficial interest in securities of a body where:-
- (a) that body to the member’s knowledge has a place of business or land in the borough; and
 - (b) either
 - (i) the total nominal value of the securities exceeds £25,000 or 1/100 of the total issued share capital of that body; or
 - (ii) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which the relevant person* has a beneficial interest exceeds 1/100 of the total issued share capital of that class.

*A relevant person is the member, their spouse or civil partner, or a person with whom they live as spouse or civil partner.

(3) Other registerable interests

The Lewisham Member Code of Conduct requires members also to register the following interests:-

- (a) Membership or position of control or management in a body to which you were appointed or nominated by the Council
- (b) Any body exercising functions of a public nature or directed to charitable purposes , or whose principal purposes include the influence of public opinion or policy, including any political party
- (c) Any person from whom you have received a gift or hospitality with an estimated value of at least £25

(4) Non registerable interests

Occasions may arise when a matter under consideration would or would be likely to affect the wellbeing of a member, their family, friend or close associate more than it would affect the wellbeing of those in the local area generally, but which is not required to be registered in the Register of Members’ Interests (for example a matter concerning the closure of a school at which a Member’s child attends).

(5) Declaration and Impact of interest on member’s participation

- (a) Where a member has any registerable interest in a matter and they are present at a meeting at which that matter is to be discussed, they must declare the nature of the interest at the earliest opportunity and in any event before the matter is considered. The declaration will be recorded in the minutes of the meeting. If the matter is a disclosable pecuniary interest the member must take no part in consideration of the matter and withdraw from the room before it is considered. They must not seek improperly to influence the decision in any way. **Failure to declare such an interest which has not already been entered in the Register of Members' Interests, or participation where such an interest exists, is liable to prosecution and on conviction carries a fine of up to £5000**
- (b) Where a member has a registerable interest which falls short of a disclosable pecuniary interest they must still declare the nature of the interest to the meeting at the earliest opportunity and in any event before the matter is considered, but they may stay in the room, participate in consideration of the matter and vote on it unless paragraph (c) below applies.
- (c) Where a member has a registerable interest which falls short of a disclosable pecuniary interest, the member must consider whether a reasonable member of the public in possession of the facts would think that their interest is so significant that it would be likely to impair the member's judgement of the public interest. If so, the member must withdraw and take no part in consideration of the matter nor seek to influence the outcome improperly.
- (d) If a non-registerable interest arises which affects the wellbeing of a member, their family, friend or close associate more than it would affect those in the local area generally, then the provisions relating to the declarations of interest and withdrawal apply as if it were a registerable interest.
- (e) Decisions relating to declarations of interests are for the member's personal judgement, though in cases of doubt they may wish to seek the advice of the Monitoring Officer.

(6) Sensitive information

There are special provisions relating to sensitive interests. These are interests the disclosure of which would be likely to expose the member to risk of violence or intimidation where the Monitoring Officer has agreed that such interest need not be registered. Members with such an interest are referred to the Code and advised to seek advice from the Monitoring Officer in advance.

(7) Exempt categories

There are exemptions to these provisions allowing members to participate in decisions notwithstanding interests that would otherwise prevent them doing so. These include:-

- (a) Housing – holding a tenancy or lease with the Council unless the matter relates to your particular tenancy or lease; (subject to arrears exception)
- (b) School meals, school transport and travelling expenses; if you are a parent or guardian of a child in full time education, or a school governor unless the matter relates particularly to the school your child attends or of which you are a governor;
- (c) Statutory sick pay; if you are in receipt
- (d) Allowances, payment or indemnity for members
- (e) Ceremonial honours for members
- (f) Setting Council Tax or precept (subject to arrears exception)

AUDIT PANEL			
Report Title	Pre-Audit Statement of Accounts 2017/18 and Annual Governance Statement		
Key Decision	No		Item No. 4
Ward	All		
Contributors	Executive Director for Resources and Regeneration		
Class	Part 1	Date: 12 th July 2018	

1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the pre-audit Statement of Accounts for 2017/18 and the draft Annual Governance Statement.

2 EXECUTIVE SUMMARY

- 2.1 The Council is not required by law to obtain elected Members' approval of its pre-audit accounts. However, given the importance of the document, and its complexity, officers are of the view that it is appropriate to present them to the Audit Panel.
- 2.2 Accordingly, the pre-audit Statement of Accounts for 2017/18 is attached as Appendix 1 to this report and the draft Annual Governance Statement (AGS) is attached as Appendix 2. (The pre-audit Pension Fund accounts are also included as part of Appendix 1.)
- 2.3 The summary of net expenditure against budgets for 2017/18 will be reported to Mayor & Cabinet on 11th July 2018.

3 RECOMMENDATION

- 3.1 To note this report and the appended documents.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 4.1 The pre-audit accounts have been prepared by officers and were submitted to the external auditors Grant Thornton on 31st May 2018, in accordance with the official (statutory) deadline. The pre-audit Pension Fund accounts were presented to the Pensions Investment Committee on 28th June 2018.
- 4.2 Within the Statement of Accounts there are four statements which are defined as "core financial statements", which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

Comprehensive Income and Expenditure Statement (CIES)

- 4.3 The CIES sets out the total expenditure by the authority in the 2017/18 financial year, some £1.0bn. The format of the CIES is consistent with the Council's management accounts, being based on the Directorate structure.

Movement in Reserves Statement (MiRS)

- 4.4 This shows the movement in the year in the different reserves held by the Council, analysed into 'usable' which can be used to fund expenditure and 'unusable' which are technical and cannot be used to fund expenditure. This summarises the available resources that can be used to fund future expenditure and to manage financial risks.

Balance Sheet

- 4.5 The balance sheet reports the 'total equity' of the Council, and shows that it is around £1.76bn as at 31st March 2018 compared with £1.46bn as at 31st March 2017.

Cash Flow Statement

- 4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2017/18 financial year. This statement is more valuable to understanding the financial health of private companies rather than local authorities, since most local authority funding comes either from government grants or from local property taxation.

Other Statements

- 4.7 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are very important to understanding key aspects of local authority services and financing.
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
 - The Collection Fund which presents a summary of the collection of Council Tax and Non-Domestic Rates (NDR).
- 4.8 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding of the financial position of the authority:
- Note 1 to the core financial statements – the Expenditure and Funding Analysis demonstrates how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates
 - Notes 14 and 16 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31st March 2018
 - Note 9 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.
- 4.9 The format of the accounts is essentially prescribed by statute and associated regulations. As a result, the document is long and detailed. Members may have questions that they wish to pose to officers on points of detail. Appropriately qualified officers will attend the meeting on 12th July 2018 to respond to these questions and issued raised. However, given the level of detail contained in the Statement of Accounts it is possible that some questions of detail may not be capable of being fully answered at the meeting. If Members have such questions,

they are asked to submit them to paul.calnan@lewisham.gov.uk, ideally at least 24 hours before the meeting.

- 4.10 In considering the 2017/18 accounts, it was concluded that for the second year running full consolidated group accounts were required on the grounds of materiality. The group accounts are an amalgamation of the Council's own 'single entity' accounts with those of our subsidiaries – Lewisham Homes & Catford Regeneration Partnership Ltd.

FINANCIAL IMPLICATIONS

- 5.1 The accounts are a financial document and present a picture of the Council's activities in 2017/18 and its assets and liabilities as at 31st March 2018. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

6 LEGAL IMPLICATIONS

- 6.1 Under the Accounts and Audit Regulations 2015 (the Regulations), local authorities are not required to obtain elected Members' approval of their pre-audit accounts. However, the Regulations do require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final audited accounts, having considered the auditor's report thereon.
- 6.2 The Regulations also require that the draft accounts are approved for issue by 31st May, following the year end by the Responsible Finance Officer under s151 of the 1972 Act. In Lewisham, that responsible officer is the Executive Director for Resources and Regeneration.
- 6.3 Public Inspection of the draft accounts is also a requirement of the Regulations. This runs from 1st June to 12th July 2018, and is publicised on the Council's website. No objections to the draft accounts have been received to date.

7 OTHER IMPLICATIONS

- 7.1 There are no direct equalities, environmental or crime and disorder implications arising from this report.

APPENDICES

Appendix 1 – Pre-Audit Statement of Accounts 2017/18 (incl. Pension Fund)

Appendix 2 – Annual Governance Statement (AGS) 2017/18

BACKGROUND PAPERS

Financial Results 2017/18 (Mayor & Cabinet meeting 11th July 2018)

For further information on this report please contact:

Selwyn Thompson, Head of Financial Services, on 020 8314 6932

Paul Calnan, Acting Group Finance Manager – Core Accounting, on 020 8314 6167

Terry Madgett, Principal Accountant – Core Accounting on 020 8314 7650

LONDON BOROUGH OF LEWISHAM

2017/ 2018 PRE-AUDIT STATEMENT OF ACCOUNTS

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Narrative Statement

NARRATIVE STATEMENT BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

This Narrative Report provides information about Lewisham the place, together with the key issues affecting the Council and its accounts.

1. COUNCIL STRUCTURE AND PERFORMANCE

a) Corporate structure and governance

Lewisham Council is made up of one Mayor, elected by the whole borough, and 54 ward councillors, three elected by each of the 18 wards within the borough. The Mayor is Labour and there are 53 Labour councillors and 1 Green Party councillor. Details of the way that the Council governs itself are given in the Annual Governance Statement in section 9 of these accounts.

b) Management structure

Supporting the work of Councillors is the organisational structure of the Council headed by the Executive Management Team (EMT), led by the Chief Executive. EMT Members are:

- Chief Executive
- Executive Director Children and Young People
- Executive Director Community Services
- Executive Director Customer Services
- Executive Director Resources and Regeneration

EMT provides managerial leadership of the Council and supports elected members in:

- Developing strategies
- Identifying and planning the use of resources
- Delivering plans
- Reviewing the Authority's effectiveness

c) Service delivery

Including teachers, Lewisham employs approximately 5,800 full time equivalent staff to deliver services. The workforce generally reflects the diversity of Lewisham's population and a full staffing profile can be found on the Council's website.

The Council also provides services through two wholly-owned subsidiary companies:

- Lewisham Homes Ltd: An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.
- Catford Regeneration Partnership Ltd: The company owns the Catford shopping centre and aims to drive forward a regeneration programme for the town centre and the surrounding area.

More detail concerning these companies is shown in the Group Accounts in section 8 of this document.

Narrative Statement

d) The Council's vision

Lewisham's vision is: 'Together, we will make Lewisham the best place in London to live, work and learn'. Our vision was developed following consultation with Lewisham residents, public sector agencies, local business, voluntary and community sector organisations. This vision is not just for the Council, it has been adopted by the Lewisham Strategic Partnership and continues to be a bold aspiration that stretches and motivates the Council and its partners to set priorities and deliver services that will achieve the vision. The key strategic document for Lewisham and for the Lewisham Strategic Partnership is "Shaping Our Future - Lewisham's Sustainable Community Strategy 2008-2020", which can be viewed on the Council's website.

e) Corporate priorities in achieving the vision

The Council's ten corporate priorities determine what contribution the Council will make towards the delivery of Shaping our Future. The priorities focus on the needs of local people and are geared towards ensuring that, in delivering services, the Council focuses on its citizens, is transparent and responds to changing needs and demands. The priorities are as follows:

- Community Leadership and Empowerment – Creating opportunities for people within the community to participate and become engaged.
- Young people's achievement and involvement – Increasing educational achievement, and through partnership working to improve facilities for young people within the borough.
- Clean green and liveable – Through improvement to environmental management, the maintained care for roads and pavements. Encouraging a sustainable way of life/sustainable environment.
- Safety security and visible presence – Through working with the police to reduce crime levels, prevention of anti-social behaviour through Council powers/resources.
- Strengthening the local economy – Through the gain of resources to redevelop key localities, strengthen employment skills and encouraging the use of public transport.
- Decent homes for all – The creation of housing that is social and affordable to achieve 'the decent homes standard', reducing homelessness.
- Protection of children – Improved safeguarding and for children at risk the presence of joined services.
- Caring for adults and older people – To provide support to the elderly and adults that require help by working with health services.
- Active healthy citizens – Providing leisure, sporting and learning activities for everyone.
- Inspiring efficiency, effectiveness and equity – Ensuring that the services provided to meet the communities needs is efficient.

f) Performance measurement

A management report is produced each month to place on record our performance against priorities. Each month we attempt to give a full account of what is being done, what has been achieved and which areas require additional management attention to secure future achievements. The report focuses on the Council's performance in line with our corporate priorities, drawing data from:

- performance indicators (PIs)
- project monitoring information
- risk register assessments
- Financial reports.

A dashboard summary gives an overall picture on one page using a red, amber, green rating. The full Management Report can be viewed on the Council's website.

Narrative Statement

2. FINANCIAL PERFORMANCE**a) 2017/18 Revenue Budget Setting and Funding**

The Council set a net budget requirement of £232.7m for 2017/18 at its meeting on 8th February 2017. This was a decrease of £3.5m or 1.5% on the previous year's net budget requirement of £236.2m. The main sources of income were Revenue Support Grant (RSG), Business Rates and Council Tax. With central RSG diminishing, Council Tax funds a higher proportion of the budget than it did last year, with bills increasing by 4.99%. A year on year comparison of revenue budget funding is shown in the following table.

2017/18 Revenue Budget Funding

	2017/18	2016/17
	£m	£m
Revenue Support Grant	46.1	59.6
Business Rates	88.9	87.1
Council Tax	91.1	84.9
Social Care Precept	2.7	1.7
Surplus on Collection Fund	3.9	2.9
Budget Requirement	232.7	236.2

b) Council Tax

In 2017/18, in addition to an increase in Council Tax for general purposes, Councils were given the ability to raise Council Tax by up to a further 2% as a precept to fund Adult Social Care expenditure without the need for a referendum. This was in response to the concerns about the growing funding gap for Adult Social Care caused by an increase in demand and the introduction of the National Living Wage, which impacted directly on the cost of care provision.

The Council increased the general rate of Council Tax by 2.99% and agreed to levy the 2% Adult Social Care precept resulting in an overall 4.99% increase in 2017/18. The actual Council Tax charge is determined by dividing the net amount to be met from Council Tax by the tax base, which for Lewisham is 81,088 equivalent Band D properties for 2017/18 (78,528 for 2016/17).

The comparison of Council Tax Band D levels from 2016/17 to 2017/18 for Lewisham is shown in the following table, together with the Greater London Authority precept.

Band D Council Tax by Tax Raising Body

	2017/18	2016/17	Variation	Variation
	£	£	£	%
Lewisham Council	1,157.68	1,102.66	55.0	5.0
Greater London Authority	280.02	276.00	4.0	1.5
Council Tax for Band D	1,437.70	1,378.66	59.0	4.3

Narrative Statement

c) 2017/18 Revenue Budget Outturn

The Council's 2017/18 revenue outturn position is shown in the following table. Further detail can be found in the Expenditure and Funding Analysis in section 3 of this document.

Directorate	Gross budgeted expenditure	Gross budgeted income	Net budget	Variance	Variance
	£m	£m	£m	£m	%
Children & Young People	66.7	(18.0)	48.7	15.6	32.0%
Community Services	167.0	(80.0)	87.0	(0.9)	-1.0%
Customer Services	102.7	(60.1)	42.6	5.0	11.7%
Resources & Regeneration	76.9	(51.8)	25.1	(1.9)	-7.6%
Directorate totals	413.3	(209.9)	203.4	17.8	8.8%
Corporate items	29.3	0.0	29.3	(1.3)	-4.4%
Net Revenue Budget	442.6	(209.9)	232.7	16.5	7.1%

During 2017/18, the overall overspend against the directorates' net controllable budgets was £17.8m. After applying the sum of £1.3m which was the residual sum set aside in setting the 2017/18 budget for 'risks and other budget pressures', this brought the final directorate overspend down to £16.5m. The reasons for these variances are being reported to the Mayor and Cabinet on the 27th June 2018. The level of overspend recorded at the close of the 2017/18 financial year is unprecedented for Lewisham. It would firmly suggest that these are budgetary pressures of an order not previously seen by the council and in particular with regards to children's social care.

Throughout the year, Mayor & Cabinet and Executive Directors have received regular financial monitoring reports and continued to implement measures to alleviate the Council's overall budget pressures and to control spending insofar as is possible. These measures have included the maintaining of local controls on particular expenditure in the short term.

With a new set of challenges in terms of the delivery of revenue budget savings, the council will continue to apply sound financial controls in 2018/19. It is clear that the short and medium-term outlook will remain difficult and exceptionally challenging. However, as the local authority's section 151 officer, the Executive Director for Resources and Regeneration will continue to work with directorate management teams across the council to effect the necessary continued actions to manage their services.

Budget overspends

There were significant overspends in 2017/18 in the placement budgets for the following areas:

For residential care the placements budget was overspent by £3.2m. These placements have grown throughout the year and totalled 42 as at the end of March 2018. At the end of 2017/18, the cost was on average £3,970 per week.

For services related to fostering both in-house and external, this overspend by £2m with the number of clients at the year-end being 357. The total number of external foster placements has moved from 171 in 2016/17 to 191 for 2017/18.

The schools transport budget within the partnerships and targeted services area overspent by £2.2m. The cost of travel assistance has been the main cause of the budget pressure due to the increased use of taxis for extra pupils being transported. This has resulted in overall additional costs of £1m on schools' transport for 2017/18.

Adult services is overspent by £0.8m. The main variances relate to (i) costs associated with deprivation of liberty safeguards (DOLS), (ii) placement budgets where existing pressures are compounded by the cost of new transition cases of £0.9m, by pressures from earlier discharges from hospital and (iii) by the difficulty in achieving the £4.5m savings required for 2017/18.

Narrative Statement

The environment service has overspent by £3.2m. This includes the refuse service overspend by £2.1m. Additional costs have been incurred by the service as a result of the delay in implementing the move to fortnightly collections and the introduction of a new service for food and garden waste collection, pertaining to staffing and equipment. Furthermore, part of this overspend relates to vehicle costs for the service, where an overspend of £0.7m relates to additional vehicle hire costs, as a result of a number of vehicles coming to the end of their useful life, with vehicle hire costs being at least three times the cost of council owned vehicles.

Dedicated Schools Grant

There were nine schools with licenced deficit budgets at the year end. Of these schools, three of them were granted loans in excess of £0.5m. At the end of the financial year there are a further six schools who have a deficit balances and will need to apply for a licensed deficit (See also Note 38 – Contingent Liabilities).

Total school balances increased by £5.8m in 2017/18. The final balance held by schools including external funds now stands at £18.6m. This should not detract from the fact that overall, secondary schools have a cumulative deficit of £0.3m, with four of the 11 secondary schools in deficit.

d) Balances and Reserves

After transfers to and from reserves the General Fund balance has been kept at £13.0m due to the proposed reduction in future Government funding and the corresponding requirement on the Council to make savings. This is an adequate level of cover and represents approximately 5.6% of Lewisham's Net Budget Requirement. The Council also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 9 to the Core Financial Statements.

The Housing Revenue Account (HRA) spent to budget after transfers to reserves as at 31st March 2018. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs. After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £108.7m (£97.0m as at 31st March 2017). These reserves include the Major Repairs Reserve and are for specific on-going projects as outlined in the notes to the HRA in Section 4 of the Accounts.

Narrative Statement

e) 2017/18 Capital Budget Outturn

The capital programme expenditure incurred during the year and how it was resourced is shown below. The percentage spent compared to the revised programme budget was 86%. Where programme slippage has occurred, the scheme budgets have been carried forward to 2018/19.

2017/18 Capital Programme

	2017/18 Final Outturn £m	2017/18 Budget Report £m	2016/17 Final Outturn £m
CAPITAL PROGRAMME EXPENDITURE			
General Fund	54.9	64.5	42.2
Housing Revenue Account	32.1	36.2	28.7
Total Spent	87.0	100.7	70.9
CAPITAL PROGRAMME FINANCING			
Borrowing	14.9	12.8	7.0
Capital Grants	18.5	25.0	18.2
Capital Receipts	18.8	10.7	19.2
Use of reserves and revenue financing	34.8	52.2	26.5
Total Financed	87.0	100.7	70.9

Major Projects of over £1m**General Fund**

Lewisham Homes – Property Acquisition
 School Places Programme
 Highways & Bridges (incl. TFL programme)
 Heathside & Lethbridge Estates
 Schools minor works

Housing Revenue Account

Decent Homes Programme

2017/18 Expenditure £m
12.0
10.5
10.0
6.7
1.1
24.3

3. LOOKING AHEAD**a) Revenue Budget Outlook**

When preparing the Council's Medium Term Financial Strategy (MTFS) the Council makes provisional spending plans for future financial years ensuring these are balanced against the expected funding from Government, Council Tax payers and Business Rate payers. The MTFS is a four year incremental process that builds on the work and achievements of previous years, taking into account demographic, legislative and other pressures; mitigated by a series of savings proposals to ensure a balanced budget can be achieved in the coming year, and that there is financial sustainability for future years.

Narrative Statement

The Council set a net budget requirement of £242.3m for 2018/19 at its meeting on 21 February 2018, which is £8.6m higher than the equivalent figure for 2017/18. The Council has made savings reductions of £4.8m to its budget and added £16.9m to provide for significant spending pressures which are being experienced and £5.0m to make up for one-off reserves used in 2017/18. An amount of £8.5m is being taken from reserves to fund the budget, but action is also being taken to ensure that expenditure is affordable in future years. The Council is maintaining adequate reserves to enable it to manage the significant funding risks it faces as the national programme of public sector expenditure reduction continues.

The report to Council projected that estimated savings of circa £35.0m are likely to be required by 2020/21. The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver ongoing savings and their work to date was presented in a report to the Mayor in December 2017. Some examples of the LFP's reviews include: smarter assessment arrangements and deeper integration of social & health care, including public health; approach to safeguarding and early intervention services; opportunities for asset rationalisation; a strategic review of income generation and the drive to make further reductions in management and corporate overheads. This work continues and further savings proposals may be brought forward in 2018/19 to help close the long term budget gap identified above.

The Council has prepared forecasts beyond 2019/20 to 2022/23, However, these are tentative at this stage as they are be subject to, amongst other things, the results of the next Comprehensive Spending Review, results of the delayed Fair Funding Review, any move to 100% business rates retention by local government in 2020, and possible changes to health and social care governance and funding arrangements. From the government's financial forecasts and outlook, further reductions to local government funding are to be expected into at least the mid-2020s.

b) Capital Budget Outlook

The Council set its capital programme budget at its meeting on 21 February 2018. This outlined the Council's programme of £271.5m for the years 2018/19 to 2020/21. The most significant parts of the programme are school expansion to provide additional pupil places, major regeneration schemes, including Catford town centre, improvement and restoration of Beckenham Place Park, plus acquiring additional housing stock under the Housing Matters programme, to be delivered by the Council's ALMO, Lewisham Homes.

The amount to be invested in 2018/19 is shown in the table below.

2018/19 Capital Programme	2018/19 Budget £m
General Fund	
Schools – Pupil Places Programme	17.7
Lewisham Homes – Property acquisition	10.0
Beckenham Place Park	5.5
Edward St. development	4.9
Catford town centre	4.8
Highways and bridges	3.1
Corporate estate	3.9
Fleet replacement	2.6
Other schemes	10.7
	63.2
Housing Revenue Account	
Decent Homes Programme	43.9
Housing Matters Programme	28.8
	72.7
Total Capital Programme	135.9

Narrative Statement

c) Corporate Risks

The Council has an embedded process to manage risks and assist the achievement of its objectives. The Risk Management Strategy was approved by EMT in July 2017 and noted by Audit Panel in December 2017. It is summarised as part of the Annual Governance Statement in section 9 of this document.

Risks are scored in terms of likelihood and impact, with a range from 1 to 5 (with 5 being the highest) and the result is plotted on a matrix to produce a Red/Amber/Green rating. The risks currently rated red for the Council are as follows:

- Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition
- noncompliance with Health & Safety legislation
- Strategic programme to develop and implement transformational change does not deliver
- financial failure and inability to maintain service delivery within a balanced budget
- loss of income to the Council
- serious adult safeguarding concerns
- failure of child safeguarding arrangements

The risk register contains action plans to manage the risks to target and these are subject to regular review by Directorate Management Teams. The risk registers are reported to Heads of Service and Internal Control Board on a quarterly basis.

4. PENSION FUND VALUATION

The actuarial valuation of the Council's pension scheme liabilities and pension reserve shown on the Balance Sheet have decreased by £4.5m during the year, mainly as a result of changes to the financial assumptions used by the pension fund Actuary (Hymans-Robertson). The Council relies and places assurance on the professional judgement of the Actuary and the assumptions used to calculate this actuarial valuation.

It is important to understand that pension benefits do not become payable until employees retire, however the council is required to account for the future obligations at the same time as the employees earn their future entitlement, in accordance with proper accounting practices. Further details are given in Note 37.

5. THE COUNCIL'S STATEMENT OF ACCOUNTS

The statement of accounts reports the income and expenditure on service provision for the year and the value of the council's assets and liabilities at the end of the financial year. This is prepared in accordance with proper accounting practices as defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

Local authorities are required to produce a comprehensive income and expenditure statement, a balance sheet and a cash flow statement, as a private sector company would. For 2016/17 an expenditure and funding analysis was introduced. However, as local authorities are also tax raising bodies (through council tax), they are required to produce an additional financial statement, accounting for movements to and from the general fund, through a movement in reserves statement. A review of materiality has also concluded that Group Accounts are required this year. A brief explanation of the purpose of each of financial statements is provided below:

Narrative Statement

Section 1 – The Core Financial Statements

Section 1a – Comprehensive Income and Expenditure Statement (CIES)

This statement shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount funded from Council Tax, and other Government grants. The amount funded from Council Tax and Government grants differ from this by a series of adjustments made in accordance with regulations. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Section 1b - Movement in Reserves Statement (MiRS)

This statement shows the movement from the start of the year to the end on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Movement in Reserves Statement shows how the movements in year of the authority's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax [or rents] for the year. The Net Increase/Decrease line shows the statutory General Fund Balance and Housing Revenue Account Balance movements in the year following those adjustments.

Section 1c - Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the authority. The net assets of the authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Section 1d - Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the authority are funded by way of taxation and grant income or from the recipients of services provided by the authority. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the authority.

Narrative Statement

Section 2 – Statement of Accounting Policies

These outline the accounting and measurement bases used for the recognition, measurement and disclosure of figures and events in preparing the financial statements in the accounts. Other accounting policies used that are relevant to an understanding of the financial statements are also included.

Section 3 – Notes to the Core Financial Statements

This section contains notes that help to explain or give more detail to the Core Financial Statements.

Section 4 – Housing Revenue Account (HRA)

This is a statutory account which shows the major elements of income and expenditure on Council Housing provision and associated services to Council tenants and leaseholders.

Section 5 – Collection Fund Accounts

This is a statutory account which shows the transactions relating to Council Tax and Non-Domestic Rates. It shows how the amounts collected have been distributed to the Council's General Fund, the Greater London Authority and Central Government.

Section 6 – Group Accounts

The Group Accounts combine the financial results of Lewisham Council with that of its subsidiaries, Lewisham Homes Ltd and Catford Regeneration Partnership Ltd. Transactions between the two subsidiaries and the Council are removed on merging the accounts of all parties. The Group Accounts therefore add the surpluses and balances and show the combined financial position for all three entities.

Section 7 - Glossary

This explains some technical and commonly used terms.

Section 8 – Pension Fund Accounts

The Lewisham Pension Fund is a separate entity from the Council and thus has its own accounts. These show the income and expenditure for the year, the value of the investments held and an assessment of the liabilities at the year end.

Section 9 – Annual Governance Statement (AGS)

This sets out the control and governance framework for all significant corporate systems and processes, cultures and values by which the Council is directed and controlled. It describes the activities with which the community is engaged and enables the monitoring of the achievement of the strategic objectives and the delivery of appropriate and cost effective services. It also reports any significant issues and the actions already taken and planned to be taken to address these.

Statement of Responsibilities & Independent Auditor's Reports

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Executive Director for Resources and Regeneration;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- to approve the Statement of Accounts.

Responsibility of the Executive Director for Resources and Regeneration

The Executive Director for Resources and Regeneration is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the 'Code of Practice').

In preparing the Statement of Accounts as set out in this document, I certify that I have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the CIPFA Local Authority Code of Practice.

I certify that I have also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2018.

The Statement of Accounts is unaudited and may be subject to change.



Janet Senior CPFA

Executive Director for Resources and Regeneration
31st May 2018

**INDEPENDENT AUDITOR'S REPORTS TO THE MEMBERS OF LONDON
BOROUGH OF LEWISHAM**

Statement of Responsibilities & Independent Auditor's Reports

Statement of Responsibilities & Independent Auditor's Reports

Statement of Responsibilities & Independent Auditor's Reports

Core Financial Statements

SECTION 1 - CORE FINANCIAL STATEMENTS

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31ST MARCH 2018

2016/17				2017/18			Note
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	
379,729	(305,440)	74,289	Children & Young People Directorate	251,594	(310,848)	(59,254)	
174,877	(72,459)	102,418	Community Services Directorate	171,781	(92,334)	79,447	
333,855	(274,771)	59,084	Customer Services Directorate	330,008	(271,004)	59,004	
57,899	(45,189)	12,710	Resources & Regeneration Directorate	59,280	(46,343)	12,937	
90,852	(98,510)	(7,658)	HRA	105,107	(100,748)	4,359	
17,606	(11,078)	6,528	Corporate Services	7,305	(5,553)	1,752	
1,054,818	(807,447)	247,371	Cost of Services	925,075	(826,830)	98,245	1
			Other Operating Expenditure				
0	(9,823)	(9,823)	(Gain) / Loss on the disposal of non-current assets	0	(8,182)	(8,182)	
1,632	0	1,632	Levies	1,638	0	1,638	7
1,947	0	1,947	Contribution of housing capital receipts to Government Pool	1,927	0	1,927	19
3,579	(9,823)	(6,244)		3,565	(8,182)	(4,617)	
			Financing and Investment Income and Expenditure				
34,995	0	34,995	Interest payable and similar charges	34,169	0	34,169	
0	0	0	Loan Restructuring	23,314	0	23,314	
0	(3,002)	(3,002)	Interest and Investment Income	0	(3,050)	(3,050)	
57,359	(36,207)	21,152	Net interest on the net defined benefit liability	49,554	(32,512)	17,042	37
92,354	(39,209)	53,145		107,037	(35,562)	71,475	
			Taxation and non-specific Grant Income				
0	(89,527)	(89,527)	Income from Council Tax	0	(97,726)	(97,726)	
0	(74,920)	(74,920)	General Government Grants	0	(58,390)	(58,390)	
0	(15,577)	(15,577)	Recognised Capital Grants and Contributions	0	(18,474)	(18,474)	
0	(87,083)	(87,083)	Non-Domestic Rates income and expenditure	0	(92,188)	(92,188)	
0	(267,107)	(267,107)		0	(266,778)	(266,778)	
		27,165	Deficit/(Surplus) on provision of services			(101,675)	1
		(101,871)	Surplus on revaluation of non-current assets			(154,972)	21
		19,316	Remeasurement of the net defined benefit liability			(38,950)	20, 37
		(82,555)	Other Comprehensive Income and Expenditure			(193,922)	
		(55,390)	Total Comprehensive Income and Expenditure			(295,597)	

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2018

YEAR ENDING 31ST MARCH 2018	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2017 Brought Forward	13,000	149,577	162,577	57,123	39,907	55,495	14,132	329,234	1,133,198	1,462,432	
Movement in Reserves during 2017/18											
Surplus or (Deficit) on the provision of services	106,322	0	106,322	(4,647)	0	0	0	101,675	0	101,675	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	193,922	193,922	
Total Comprehensive Income and Expenditure	106,322	0	106,322	(4,647)	0	0	0	101,675	193,922	295,597	
Adjustments between accounting basis and funding basis under regulations	(95,776)	0	(95,776)	17,733	(1,436)	(7,145)	3,167	(83,457)	83,457	0	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	10,546	0	10,546	13,086	(1,436)	(7,145)	3,167	18,218	277,379	295,597	
Transfers to / (from) Earmarked Reserves	(10,546)	10,546	0	0	0	0	0	0	0	0	9, HRA 14, HRA 15
Increase / (Decrease) in 2017/18	0	10,546	10,546	13,086	(1,436)	(7,145)	3,167	18,218	277,379	295,597	
Balance at 31 March 2018 Carried Forward	13,000	160,123	173,123	70,209	38,471	48,350	17,299	347,452	1,410,577	1,758,029	
Note		9		HRA 15	HRA 14	19			20, 21, 22 Coll Fd 3		

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2017

YEAR ENDING 31ST MARCH 2017	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Sub-Total General Fund £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000	Note
Balance at 01 April 2016 Brought Forward	13,000	152,528	165,528	42,894	37,475	57,231	8,149	311,277	1,095,765	1,407,042	
Movement in Reserves during 2016/17											
Surplus or (Deficit) on the provision of services	(33,272)	0	(33,272)	6,107	0	0	0	(27,165)	0	(27,165)	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	0	82,555	82,555	
Total Comprehensive Income and Expenditure	(33,272)	0	(33,272)	6,107	0	0	0	(27,165)	82,555	55,390	
Adjustments between accounting basis and funding basis under regulations	30,321	0	30,321	11,399	(845)	(1,736)	5,983	45,122	(45,122)	0	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	(2,951)	0	(2,951)	17,506	(845)	(1,736)	5,983	17,957	37,433	55,390	
Transfers to / (from) Earmarked Reserves	2,951	(2,951)	0	(3,277)	3,277	0	0	0	0	0	9, HRA 14, HRA 15
Increase / (Decrease) in 2016/17	0	(2,951)	(2,951)	14,229	2,432	(1,736)	5,983	17,957	37,433	55,390	
Balance at 31 March 2017 Carried Forward	13,000	149,577	162,577	57,123	39,907	55,495	14,132	329,234	1,133,198	1,462,432	
Note		9		HRA 15	HRA 14	19			20, 21, 22 Coll Fd 3		

Core Financial Statements

BALANCE SHEET AS AT 31ST MARCH 2018

31/03/2017 £000		31/03/2018 £000	Note
	Property, Plant & Equipment		
1,229,068	Council Dwellings	1,255,843	10b, HRA 1a, 9
774,672	Other Land and Buildings	1,011,061	10b
27,865	Vehicles, Plant, Furniture and Equipment	25,170	10b
114,893	Infrastructure	117,424	10b
4,982	Community Assets	4,975	10b
76,893	Surplus Assets not Held for Sale	94,623	10b
23,115	Assets under Construction	23,690	10b
2,251,488		2,532,786	
257	Heritage Assets	257	41
0	Investment Property	0	11
2,049	Long Term Investments	2,076	
32,566	Long Term Debtors	44,948	14a
2,286,360	Total Long Term Assets	2,580,067	
280,731	Short Term Investments	310,648	12
0	Assets Held for Sale	0	
181	Inventories	152	
47,486	Debtors	45,541	14b
92,048	Cash and Cash Equivalents	104,250	15
3,637	Prepayments	3,941	
424,083	Current Assets	464,532	
3,532	Bank Overdraft	9,530	15
26,854	Short Term Borrowing	42,468	12
3,758	Provisions (Less than 1 year)	3,378	17
76,453	Creditors	78,193	16
76,789	Receipts in Advance	90,493	18
7,580	PFI Liabilities due within one year	7,945	34d
194,966	Current Liabilities	232,007	
2,515,477	Total Assets less Current Liabilities	2,812,592	
166,126	Long Term Borrowing	179,453	12
4,843	Provisions (More than 1 year)	5,393	17
236,196	Deferred PFI Liabilities	228,124	34d
1,616	Capital Grants Receipts in Advance	1,858	
644,264	Liability related to defined benefit pension scheme	639,735	20, 37
1,053,045	Long Term Liabilities	1,054,563	
1,462,432	NET ASSETS	1,758,029	
	Usable Reserves		
13,000	General Fund Balance	13,000	
149,577	Earmarked Revenue Reserves	160,123	9
57,123	Housing Revenue Account	70,209	HRA 15
39,907	Major Repairs Reserve	38,471	HRA 14
55,495	Usable Capital Receipts Reserve	48,350	19
14,132	Capital Grants Unapplied	17,299	
329,234		347,452	
	Unusable Reserves		
890,273	Revaluation Reserve	1,025,482	21
895,587	Capital Adjustment Account	1,052,696	22
95	Deferred Capital Receipts	93	
(3,841)	Financial Instruments Adjustment Account	(26,450)	
(644,264)	Pensions Reserve	(639,735)	20, 37
3,096	Collection Fund Adjustment Account	5,547	Coll Fd 3
(7,748)	Short Term Compensated Absences Account	(7,056)	
1,133,198		1,410,577	
1,462,432	TOTAL RESERVES	1,758,029	

Core Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2018

2016/17 £000s		2017/18 £000s	Note
(27,165)	Net surplus or (deficit) on the provision of services	101,675	
105,498	Adjustment to surplus or deficit on the provision of services for non-cash movements	(50,276)	42
(41,131)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(33,185)	43
37,202	Net Cash flows from Operating Activities	18,214	
(40,791)	Net Cash flows from Investing Activities	(38,838)	45
(6,142)	Net Cash flows from Financing Activities	26,828	46
(9,731)	Net Increase or (decrease) in Cash and Cash Equivalents	6,204	
98,247	Cash and Cash Equivalents at the beginning of the reporting period	88,516	15
88,516	Cash and Cash Equivalents at the end of the reporting period	94,720	15

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the SERCOP 2017/18, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis (in other words, on the expectation that the Council will continue to operate in its current form for the foreseeable future).

2. CHANGES IN ACCOUNTING ESTIMATES AND ACCOUNTING POLICIES, MATERIAL ERRORS AND PRIOR PERIOD ADJUSTMENTS

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Prior period adjustments may arise from a change in an accounting policy or to correct a material error. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

3. ACCRUALS OF INCOME AND EXPENDITURE

The Council's revenue and capital accounts are prepared on an accruals basis. This means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Expenditure on supplies is accounted for when they are used. When there is a significant gap between the date on which supplies are received and the date of their use, and the value is material, they are carried as inventories on the Balance Sheet.
- Expenditure on services received (including those provided by employees) is accounted for when the services are received rather than when payments are made.

Statement of Accounting Policies

Where income and expenditure have been recognised in the accounts, but cash has not been received or paid, a debtor or creditor for the amount is recorded in the Balance Sheet. Where it is likely that debts may not be settled, a charge is made to revenue for the income that might not be collected and the debtor is impaired.

4. EXCEPTIONAL ITEMS

Where items of expenditure and income are material, their nature and amount are disclosed separately, either in the Comprehensive Income and Expenditure Statement (the "CIES") or in a note to the accounts, depending on their significance.

5. FOREIGN CURRENCY TRANSLATION

Where the Council has entered into a foreign currency transaction, it is converted into sterling at the exchange rate prevailing on the transaction date. Where amounts are outstanding at year end, they are converted at the exchange rate on 31 March. Any material gains or losses are charged to the Financing and Investment Income and Expenditure line in the CIES.

6. VALUE ADDED TAX (VAT)

Income and Expenditure excludes any amounts related to VAT, unless it is irrecoverable from Her Majesty's Revenue and Customs. VAT is paid on invoices received and charged to an input tax account and VAT is collected with income and posted to an output tax account. These accounts are reconciled and claims made to HM Revenue and Customs for the net VAT incurred on a monthly basis.

7. EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:-

- those that give evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events where they are considered to be material;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events. However, where they would have a material effect, disclosure is made in the notes of the nature of the event and its estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

8. OVERHEADS AND SUPPORT SERVICES

The costs of overheads and support services are charged to the services where those budgets are controlled, in line with the organisational structure of the Council. This approach follows a change in the Code of Practice for last year 2016/17. However, overheads and support services still continue to be allocated across the benefiting services to cover statutory requirements (for example, between the General Fund and Housing Revenue Account) and for statutory returns to Central Government.

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. Amounts recognised as due to the Council are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential of the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or else the future economic benefits or service potential must be returned to the transferor. Amounts received as grants and contributions for which conditions have not been satisfied are carried on the Balance Sheet as receipts in advance. When conditions are satisfied, they are credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the CIES.

Statement of Accounting Policies

Where capital grants are credited to the CIES, they are reversed out of the General Fund Balance in the Movement in Reserves Statement (MiRS). Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

10. LEASES

Leases are classified as finance leases where the terms of the lease substantially transfer all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements which do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where the fulfilment of the arrangement is dependent on the use of specific assets.

a) The Council as Lessee

i) Finance Leases

The Council as lessee does not have any finance leases.

ii) Operating Leases

Rentals paid under operating leases are charged to the CIES as expenditure of the services which benefit from the use of the leased asset. Charges are made on a straight-line basis over the life of the lease, even if this does not match the incidence of payments (e.g. where there is a rent-free period).

b) The Council as Lessor

i) Finance Leases

When the Council grants a finance lease over a property or item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any gain, representing the Council's net investment in the lease, is credited to the same line in the CIES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease asset (long-term debtor) in the Balance Sheet. The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the MiRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the MiRS. When the future rentals are received, the capital receipt for the disposal of the asset is used to write down the lease debtor, and the associated deferred capital receipt is transferred to the Capital Receipts Reserve.

Lease rentals received are apportioned between a charge for the acquisition of the interest in the property, which is applied to write down the lease debtor (together with any premiums received), and finance income (credited to the Financing and Investment Income and Expenditure line in the CIES).

ii) Operating Leases

Where the Council grants an operating lease over a property or item of plant or equipment, the asset is retained on the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES on a straight-line basis over the life of the lease, even if this does not match the incidence of payments received.

Statement of Accounting Policies

11. INVENTORIES (STOCK)

Highways and fleet stores are valued and included in the Balance Sheet at cost price as a proxy for average price. Revenue accounts are charged with the cost of obsolescent stock written off.

12. LONG TERM CONTRACTS

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

13. EMPLOYEE BENEFITS

a) Benefits Payable during Employment

Short-term employee benefits are those which are settled within 12 months of the year-end. They include salaries, paid annual leave and sick leave for current employees and are recognised as an expense in the year in which employees render their services to the Council. An accrual is made for the cost of entitlements (or any form of leave) earned by employees, but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the year in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS using the Short Term Compensated Absences Account so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. This account shows the differences arising on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March each year. Statutory requirements are that the impact on Council Tax is reversed through the Account.

b) Termination and Discretionary Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before their normal retirement date. They are charged on an accruals basis to the relevant Service Cost line in the CIES in the year in which the Council is committed to the termination of the employment of the officer. The Council has an approved scheme to make awards of benefits in the event of early retirements which requires a panel to consider and agree proposals on the grounds of redundancy and/or efficiency and applications for voluntary early retirement from employees.

Where termination benefits have involved the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable but unpaid at the year-end.

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities arising as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Statement of Accounting Policies

c) Post-Employment Benefits

Employees of the Council are members of four separate pension schemes:-

- The Teachers' Pension Scheme, administered by Capita Teachers Pensions for the DfE;
- The NHS Pension Scheme, administered by EA Finance NHS Pensions;
- The London Pension Fund administered by the Local Pensions Partnership (LPP) on behalf of the London Pensions Fund Authority (LPFA);
- The Local Government Pension Scheme (LGPS), administered by Lewisham Council.

These schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as they work for the Council.

(i) Teachers' Pension Scheme and the NHS Pension Scheme

These schemes are defined benefit schemes, but are accounted for as if they were defined contributions schemes, since their liabilities cannot be separately identified to individual Local Authorities. No liabilities for future payment of benefits are therefore recognised in the Balance Sheet for these schemes. The CIES is charged with the employer's contributions paid to the schemes during the year.

(ii) London Pension Fund Scheme

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets can be identified to individual Councils. The CIES is charged with a levy from the LPFA to meet the employer's contributions and the costs of administration.

(iii) Local Government Pension Scheme

This scheme is a defined benefit scheme and is accounted for as such, since its liabilities and assets are attributable to individual Local Authorities. The Council's attributed liabilities are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments to be made by the Scheme in relation to benefits earned to date, based on a number of assumptions about mortality rates, turnover, projected earnings etc. These liabilities are discounted to their value at current prices, using a discount rate recommended by the Scheme's Actuaries.

The assets of the Scheme are included in the Balance Sheet at their fair value as follows:-

- Quoted securities – current bid price
- Unquoted securities – professional estimate
- Unitised securities – current bid price
- Property – market value.

The change in the net pensions liability is analysed into the following components:-

- Service Costs comprising
The current service cost which is the increase in liabilities as a result of years of service earned this year. These are allocated in the CIES to the services for which the employees worked.
The past service cost which is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. These are debited to the relevant Service Directorate in the Surplus or Deficit on the Provision of Services in the CIES.
- Net interest on the net defined benefit liability
This is the change in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES. This is calculated by applying the discount rate to the net defined benefit liability at the beginning of the period, accounting for any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- Re-measurement comprising
The return on plan assets excluding amounts included in net interest.
The actuarial gains and losses arising from changes in demographic and financial assumptions since the last actuarial valuation.
Other changes not accounted for elsewhere.

Statement of Accounting Policies

Statutory regulations require Council Tax to fund the amounts payable to the Pension Scheme in the year, rather than the amount calculated according to the relevant accounting standards. The notional entries for assets and liabilities are therefore matched with appropriations to and from the Pension Reserve in the Movement in Reserves Statement. The negative balance on the Pensions Reserve thus measures the beneficial impact on the General Fund of being required to account on the basis of cash flows rather than as benefits are earned by employees.

The detailed accounting policies followed in preparing the pension fund accounts are disclosed separately in the Council's Pension Fund Accounts in Section 8 of the Statement of Accounts.

14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes and Catford Regeneration Partnership Ltd. It also has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken, and for 2017/18 it has again been concluded that the activities of Group's entities are sufficiently material to warrant the production of Group Accounts. See also Section 6 – Group Accounts, and Note 25 - Investment in Companies.

15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

a) Provisions

The Council has set aside amounts from revenue as provisions which will be used to cover future expenditure. Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement at a later date and where a reliable estimate can be made of the amount of the obligation. Provisions are charged to the appropriate service line in the CIES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision in the Balance Sheet. All provisions are reviewed at the end of the financial year, and where it is assessed that it is less than probable that a settlement will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Council settles the obligation.

b) Impairment Allowances

Impairment allowances to cover Council Tax, housing rents and other debtors are set up where it is doubtful that the debts will be settled. A charge is made to the relevant account for the income and is deducted from the current debtors balance on the Balance Sheet. When it is deemed that the debts are irrecoverable they are written off to the impairment allowance. Where payments are made, they are credited to the provision on the Balance Sheet.

16. RESERVES

The Council has set aside specific amounts as reserves to cover future expenditure for contingencies or policy purposes, which fall outside the definition of provisions, and are shown in Note 8 of Section 3. The reserves are created by appropriating amounts out of the General Fund Balance in the MiRS. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then credited back to the General Fund Balance in the MiRS so that there is no net charge against Council Tax. Statutory reserves are kept to manage the accounting processes for non-current assets, financial instruments, and retirement and employee benefits and are not available for the Council to use to finance services.

Statement of Accounting Policies

17. CONTINGENT LIABILITIES AND ASSETS

A contingent liability or asset arises where an event has taken place that gives the Council a possible obligation or asset. However, this will only be confirmed by the occurrence or otherwise of another event not wholly within the control of the Council. These are not recognised in the Balance Sheet but are disclosed in a note to the accounts. A contingent liability could also arise in circumstances where a provision would otherwise be made but either it is not probable that a payment will be required or the amount of the obligation cannot be measured reliably.

18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred which can be capitalised under statutory provisions but does not result in the creation of a non-current asset for the Council (e.g. home improvement grants or voluntary aided schools expenditure), is charged to the relevant service cost line in the CIES. Where this expenditure is met from existing capital resources or by borrowing, a transfer in the MiRS from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged so that there is no impact on Council Tax.

19. FINANCIAL INSTRUMENTS**a) Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council enters into a financial instrument and are initially measured at fair value and carried at their amortised cost. Charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by its effective rate of interest. This rate exactly discounts estimated future cash payments over its life to the amount at which it was originally recognised. For the Council's borrowings, the amount on the Balance Sheet is the outstanding principal repayable (plus accrued interest), and the interest charged to the CIES is the amount payable for the year for the loan. Where market loans are defined as Lender Option Borrower Option (LOBO's), these are accounted for as short term loans if they have options occurring within the next financial year.

In 2017/18 the Council restructured one of its market loans in what classifies as a substantial modification, given that the variance between the present values of the net cash flows under the modified loan and the cash flows programmed over the remaining life of the original loan is greater than 10%. The increase in debt principal as a result of the restructure has been accounted for by creating a premium which will be charged to the CIES over the remaining life of the loan.

Premiums and discounts from previous year's settlements are charged to the CIES in accordance with regulations requiring the impact on the General Fund and the HRA to be spread over future years. The Council's policy is to spread the gain or loss over the remaining term of the loan repaid on which the premium was payable or discount receivable. As required by statute, the amounts charged to the CIES are adjusted to the required charge against Council Tax or Housing Rents by a transfer to or from the Financial Instruments Adjustment Account in the MiRS. This account holds the accumulated difference between the financing costs charged to the CIES and the accumulated financing costs required to be charged to the General Fund Balance in accordance with regulations.

b) Financial Assets**i) Loans and Receivables**

Loans and receivables are assets that have fixed or determinable payments but are not quoted in an active market. They are recognised on the Balance Sheet initially at fair value and subsequently at their amortised cost, and include short term investments and sundry debtors. The credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by its effective rate of interest. For loans that the Council has made, this means that the amount shown on the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year for the loan. Any gains and losses that arise on the de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the CIES.

Statement of Accounting Policies

ii) Available-for-Sale Assets

These are assets which have a quoted market price and/or do not have fixed or determinable payments. The Council does not have any assets in this category.

20. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than twenty four hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk of change in value. The Cash Flow Statement shows cash and cash equivalents net of repayable on demand bank overdrafts which form an integral part of the Council's cash management.

21. INTANGIBLE NON CURRENT ASSETS

Intangible Non-Current Assets (e.g. software licences) do not have any physical substance and are identifiable and controllable by the Council through custody or legal rights. The expenditure is only capitalised when it and the future economic benefits or service potential flowing from it are both material. The level of spend on these assets is immaterial and therefore is charged direct to the CIES.

22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it adds value, increases its ability to deliver future economic benefits or service potential, or can be capitalised as a component and exceeds the Council's de-minimus limit of £40,000. Expenditure financed from the government's Devolved Formula Capital Grant is also capitalised on the basis that it increases the school's service potential. Expenditure that only maintains an asset's value (i.e. repairs and maintenance) and does not increase its ability to deliver benefits or services is charged as revenue expenditure when it is incurred.

b) Measurement and Valuation

Non-current assets are initially measured at cost, comprising the purchase price and any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The Council capitalises costs incurred whilst assets are under construction if these costs are directly attributable to an asset and it is probable that future economic benefits will flow to the authority (in accordance with IAS 16). These balances are held on the balance sheet under the category Assets Under Construction and are transferred to the specific non-current assets category when the project reaches practical completion. Non-current assets are carried on the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – current value, using the basis of existing use value for social housing (EUV-SH);
- all other assets – current value, being the amount that would be paid for the asset in its existing use (existing use value – EUV);
- where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value;
- where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Non-current assets included in the Balance Sheet at fair value are revalued regularly in accordance with the Statements of Appraisal and Valuation Manual and Guidance Notes issued by the RICS and recommended by CIPFA.

Statement of Accounting Policies

The cost of an asset acquired other than by purchase is deemed to be its fair value. Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the CIES. Where the donation has been made conditionally, the gain is held in the Donated Assets Account until conditions are satisfied. Where gains are credited to the CIES, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the MiRS. The Council did not receive any donated assets in 2017/18 (nor in 2016/17).

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Gains are credited to the CIES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line in the CIES.

Surplus Assets not Held for Sale are assets that are not being used to supply goods and services and do not meet the criteria of assets held for sale. The adoption of IFRS 13 requires that these assets are measured at fair value and not existing use value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

c) Charges to Revenue for Non-Current Assets

All services are charged with the following amounts to reflect the cost of using Property, Plant and Equipment assets during the year:-

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service (where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off).

These amounts are not required to be charged against Council Tax; however the Council is required to make an annual contribution from revenue (the Minimum Revenue Provision – MRP) to reduce its overall outstanding borrowing, calculated on a prudent basis in accordance with statutory guidance. The difference between the two is accounted for within the Capital Adjustment Account in the Movement in Reserves Statement.

d) Impairment

Non-current assets held on the Balance Sheet are reviewed at year-end to assess whether they may be impaired. Where an impairment exists, the recoverable amount of the asset is estimated and if material, an impairment loss is recognised for the shortfall and is accounted for as follows:-

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no or an insufficient balance in the Revaluation Reserve, the carrying amount of the asset is written down against the relevant service line in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line in the CIES, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

Statement of Accounting Policies

e) Depreciation

Depreciation is charged on all Property, Plant and Equipment assets by applying the straight-line method based on the asset's useful life. Depreciation is not charged for assets with an indeterminable finite useful life, a long life such that depreciation would be immaterial, assets where the recoverable amount exceeds the carrying amount (i.e. freehold land, community assets) and assets under construction. Depreciation is calculated on the following bases:

- council dwellings – 40 years
- other land & buildings (including hostels) – 40 years
- vehicles, plant & equipment – range of 5 to 20 years
- infrastructure – range of 10 to 40 years (but the majority being 25 years)

The Council's policy is to charge depreciation on the assets value at 1 April each year. It is charged from the year following the date of purchase or completion of construction, and is not adjusted for disposals or additions of assets during the year. Where an asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

f) Non-Current Assets Held for Sale

When it is almost certain that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, and the strict criteria set out in the COP are met, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

g) Disposals of Non-Current Assets

When an asset is disposed of or decommissioned, the carrying amount in the Balance Sheet is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Any receipts from disposals are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for asset disposals are classified as capital receipts. A proportion of receipts from housing disposals (as per the relevant regulations) are payable to the Government. The retained receipts are required to be credited to the Usable Capital Receipts Reserve, and can only be used to finance new capital investment or set aside to reduce the Council's underlying need to borrow. Receipts are appropriated to the Reserve from the General Fund Balance in the MiRS. The written-off value of disposals is not a charge against Council Tax. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the MiRS.

h) Deferred Capital Receipts

This reserve holds the gains recognised on the disposal of non-current assets but for which a cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the cash settlement eventually takes place, the amounts are transferred to the Usable Capital Receipts Reserve.

Statement of Accounting Policies

23. HERITAGE ASSETS

These are assets which are primarily held for their contribution to knowledge or culture, however, where they are used as operational assets, they are classified as such. They are recognised and measured in accordance with the accounting policies on Property, Plant and Equipment in respect of revaluation, impairment and disposal. The Council has, however, opted not to depreciate these assets since they are enduring by nature. The threshold for disclosure is £40,000.

24. INVESTMENT PROPERTIES

The Council no longer holds any Investment Properties – these were all reclassified to Property, Plant & Equipment in a previous year (2015/16) as part of a review resulting from IFRS 13 – Fair Value Measurement.

25. PRIVATE FINANCE INITIATIVE (PFI) CONTRACTS

These are agreements to receive services where the responsibility for making available the assets needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes and as ownership of the assets will pass to the Council at the end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment. The original recognition of these assets at fair value is balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Where schemes include a capital contribution, the liability is written down accordingly. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as other non-current assets owned by the Council. The amounts payable to the PFI operators each year are analysed into the following five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to Interest Payable and Similar Charges in the CIES;
- contingent rent – increases in the amount to be paid for the asset arising during the contract, debited to Interest Payable and Similar Charges in the CIES;
- payment towards liability – applied to write down the liability towards the PFI operator;
- lifecycle replacement costs – recognised as prepayments in the Balance Sheet and then recognised as non-current assets on the Balance Sheet when the work is carried out.

26. ACCOUNTING FOR SCHOOLS

Schools' accounting policies are the same as the Council's, with their income and expenditure being attributed to the appropriate service line in the CIES and their assets, liabilities and balances being included on the Balance Sheet. Schools' earmarked reserves are shown separately within Note 9 to the Core Financial Statements. An analysis of Dedicated Schools' Grant (the main source of funding for schools) is shown in Note 29. Any critical judgements made relating to accounting for schools' non-current assets (i.e. land and buildings) are shown in Note 3.

Notes to the Core Financial Statements

SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31ST MARCH 2018

The objective of the Expenditure and Funding Analysis is to demonstrate to council tax [and rent] payers how the funding available to the authority (i.e. government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Council's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	57,538	(116,792)	(59,254)
Community Services Directorate	74,594	4,853	79,447
Customer Services Directorate	55,170	3,834	59,004
Resources & Regeneration Directorate	4,314	8,623	12,937
HRA	(13,865)	18,224	4,359
Corporate Services	(27)	1,779	1,752
Cost of Services	177,724	(79,479)	98,245
Other Income and Expenditure	(199,920)	0	(199,920)
(Surplus) or Deficit	(22,196)	(79,479)	(101,675)

Opening General Fund and HRA Balance at 01 April 2017	(259,607)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(22,196)
Closing General Fund and HRA Balance at 31 March 2018	(281,803)

Analysed between General Fund and HRA Balances			
	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2017	(162,577)	(97,030)	(259,607)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(10,546)	(11,650)	(22,196)
Closing General Fund and HRA Balance at 31 March 2018	(173,123)	(108,680)	(281,803)

Notes to the Core Financial Statements

EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31ST MARCH 2017

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (i)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	53,797	20,492	74,289
Community Services Directorate	94,883	7,535	102,418
Customer Services Directorate	55,939	3,145	59,084
Resources & Regeneration Directorate	4,121	8,589	12,710
HRA	(17,479)	9,821	(7,658)
Corporate Services	15,235	(8,707)	6,528
Cost of Services	206,496	40,875	247,371
Other Income and Expenditure	(220,206)	0	(220,206)
(Surplus) or Deficit	(13,710)	40,875	27,165

Opening General Fund and HRA Balance at 01 April 2016	(245,897)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	(13,710)
Closing General Fund and HRA Balance at 31 March 2017	(259,607)

Analysed between General Fund and HRA Balances			
	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2016	(165,528)	(80,369)	(245,897)
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	2,951	(16,661)	(13,710)
Closing General Fund and HRA Balance at 31 March 2017	(162,577)	(97,030)	(259,607)

Notes to the Core Financial Statements

Notes to the EFA

(i) Adjustments between Funding and Accounting Basis

Adjustments from General Fund to arrive at the CIES amounts	2017/18			
	Adjustment for Capital Purposes £'000	Net change for the Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
SERVICE				
Children & Young People Directorate	(128,863)	12,798	(727)	(116,792)
Community Services Directorate	2,855	1,998	0	4,853
Customer Services Directorate	3,709	2,555	(2,430)	3,834
Resources & Regeneration Directorate	7,088	1,521	14	8,623
HRA	15,335	3,011	(122)	18,224
Corporate Services	(33,490)	12,538	22,731	1,779
Cost of Services	(133,366)	34,421	19,466	(79,479)
Other Income and Expenditure	0	0	0	0
Difference between General Fund surplus or deficit and CIES surplus or deficit	(133,366)	34,421	19,466	(79,479)

Adjustments from General Fund to arrive at the CIES amounts	2016/17			
	Adjustment for Capital Purposes £'000	Net change for the Pensions Adjustments £'000	Other Differences £'000	Total Adjustments £'000
SERVICE				
Children & Young People Directorate	13,667	3,689	3,136	20,492
Community Services Directorate	6,987	558	(10)	7,535
Customer Services Directorate	7,391	693	(4,939)	3,145
Resources & Regeneration Directorate	8,185	404	0	8,589
HRA	7,879	2,427	(485)	9,821
Corporate Services	(23,776)	15,371	(302)	(8,707)
Cost of Services	20,333	23,142	(2,600)	40,875
Other Income and Expenditure	0	0	0	0
Difference between General Fund surplus or deficit and CIES surplus or deficit	20,333	23,142	(2,600)	40,875

Notes to the Core Financial Statements

(ii) Segmental Income and Expenditure

	2017/18
	£'000
Revenues from external customers	(236,465)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(3,050)
Interest expense	34,169
Depreciation and amortisation	(98,431)
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	(8,182)
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

	2016/17
	£'000
Revenues from external customers	(220,114)
Revenues from transactions with other operating segments of the authority	0
Interest revenue	(3,002)
Interest expense	34,995
Depreciation and amortisation	61,954
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	(9,823)
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2017/18 ACCOUNTS

The Code of Practice requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued, but not yet adopted. This applies to the adoption of the following new or amended standards within the Code:

- Leases: IFRS 16 will require lessees to recognise most leases on their balance sheet – this is a significant change from current practice. Lessees will have a single accounting model for all leases, with two exemptions (low value assets and short term leases). Lessor accounting will be substantially unchanged. The new standard will come into effect in financial year 2018/19 (that is, from 1st January 2019, with limited early application permitted). Therefore, there is no impact on the 2017/18 Accounts. In 2018/19, as regards the Council as lessee, an initial assessment indicates that the current annual charge to the CIES of £1.5m will increase slightly to £1.6m, and the Existing Use Value of the leases would add approximately £18.8m to the balance sheet.

Notes to the Core Financial Statements

- Financial Instruments: IFRS 9 replaces IAS 39 from April 2018 and will require the Council to comprehensively review its existing financial instruments and their ongoing accounting treatment, to ensure that assets are classified and measured at fair value initially, with any changes in fair value recognised in the CIES as and when they arise. The standard also introduces an “expected credit loss” model for the impairment of assets, loans and receivables which assesses the risk that a loan/receivable will default while taking into account the Council’s business reasons for holding those assets. The overall impact of the new standard to the Council is still yet to be fully assessed, although in general the authority currently deals in fairly simple ‘vanilla’ instruments which may lessen the overall impact. Officers will work in year to develop and adapt any existing business practices in order to meet the requirements of the new standard and fully understand the financial impact on the Council.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the Accounting Policies the Council has had to make certain judgements about complex transactions (shown in this note) and a number of assumptions which involve uncertainty about future events (shown in the following note). The major judgements made are as follows:

- a. There is uncertainty about future levels of funding for local government. However, the Council has concluded that it is unlikely that the assets of the Council will be impaired as a result of the actions required to achieve the necessary savings, including closing facilities and reducing services.
- b. A number of judgements have been made under IFRS concerning the classification of and the accounting for Non-Current Assets, Investment Properties, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. The adoption of IFRS 13 Fair Value Measurement in 2015/16 led to an assessment of the Council’s Investment Properties and their reclassification to Property, Plant & Equipment (for further details, see Note 24 – Investment Properties – in Accounting Policies above). In summary, there are no material changes to these judgements for the 2017/18 Accounts compared to those for last year.
- c. An accounting judgement has been made for each school as to whether their land and buildings should be included within the Council’s Balance Sheet:-
 - Included are 41 Community Primary Schools, 5 Community Secondary Schools, 3 Community Special Schools, 2 Foundation Schools and 2 Nursery Schools (53 schools).
 - Excluded are 23 Voluntary-aided Schools, 3 Foundation Schools, 4 Academies and 3 Other Schools (33 schools).
 - Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above, although the PFI liability remains with the Council.
- d. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2017/18, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies.
- e. The Council has previously agreed that it will indemnify all the pension costs of Lewisham Homes staff. The Council’s judgement is that this indemnity is most accurately represented by accounting for the liability under IAS 19, rather than as an accrual, provision, reserve or contingent liability. The Council’s 2017/18 Single Entity Accounts therefore include the full costs of the Lewisham Homes IAS 19 liability and are consistent with the Council’s 2016/17 Accounts and Lewisham Homes’ Accounts for both years.

Notes to the Core Financial Statements

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, the actual outcomes could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31st March 2018 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:-

a) Property, Plant and Equipment

Non-Current Assets are depreciated over their useful lives which are partially dependent on assumed levels of repairs and maintenance that will be achieved. However the current economic climate makes it uncertain that the Council will be able to sustain its current level. If the useful life of assets is reduced, the depreciation will increase and the carrying amount of the assets will decrease. The annual depreciation charge for buildings could increase by approximately £1m for every year that useful lives are reduced. For further information on Non-Current Assets, see Note 10.

b) Insurance Provisions

The insurance provision is made up of contributions to cover liabilities arising over a number of years. It is split between less than and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid in each of those years and what remains outstanding. An annual review is commissioned from insurance advisors to inform this split. The balance on the provision < 1 year at 31st March 2018 is £2.5m, and so an increase over the forthcoming year of 10% in the total number of claims or in the average settlement could add £0.25m to the provision needed.

c) Non-Domestic Rates - Appeals

Since the introduction of the Business Rates Retention Scheme from 1st April 2013, Councils are liable for successful appeals against NDR charged to businesses in 2017/18 and earlier financial years in their proportionate share. Therefore, a provision has been raised for the estimate of the amount that businesses have been overcharged up to 31st March 2018, using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The balance on this provision at 31st March 2018 is £2.0m.

d) Arrears of Significant Debtors

The Council had debtors balances of Council Tax, Non Domestic Rates, Housing Rents and sundry others of £120.8m as at 31st March 2018. All of the significant balances have been reviewed and impairment allowances for doubtful debts have been set at appropriate levels, with an overall impairment allowance of £75.5m. Although the current economic climate, including the Government's welfare benefits reform initiative, has been taken into account, it is not certain that these allowances will be sufficient, as the judgements made are mainly based on historical trends. If collection rates were to deteriorate, an increase of 10% in the amount of the impairment allowance would require an additional sum of £7.5m to be set aside.

e) Pensions Liability

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied. The effects on the net pensions liability of changes in individual assumptions can be measured and are outlined in the Defined Benefits note to these Accounts (Note 37).

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

There are no material items of Income and Expenditure that are not disclosed elsewhere in these Accounts.

Notes to the Core Financial Statements

6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration at the end of May 2018. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31st March 2018, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions.

St George's CE Primary School became an academy on 1st May 2018 and this will be reflected in Council's DSG funding for 2018/19. This will have no effect on the Council's balance sheet, because the school's land and buildings are already excluded as being those of a voluntary-aided school (see Note 3 – Critical Judgements in Applying Accounting Policies – paragraph C).

7. OTHER OPERATING EXPENDITURE - LEVIES

These are included under the "Other Operating Expenditure" line in the Comprehensive Income and Expenditure Statement, and comprises the statutory levies for services carried out by other bodies.

	2017/18 £000	2016/17 £000
London Pension Fund Authority	1,241	1,229
Lee Valley Regional Park Authority	213	224
Environment Agency	184	179
Total Levies Paid	1,638	1,632

8. TECHNICAL NOTE: AN ANALYSIS OF THE MOVEMENT IN RESERVES STATEMENT ADJUSTMENTS BETWEEN THE ACCOUNTING BASIS AND FUNDING BASIS

This note details the adjustments that are made to the CIES recognised by the Council in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Council to meet future capital and revenue expenditure. The total of these adjustments appears as a line on the Movement in Reserves Statement.

Notes to the Core Financial Statements

2017/18	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	31,410	3,011				(34,421)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	22,731	(122)				(22,609)
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	(2,451)					2,451
Holiday Pay (transferred to the Accumulated Absences Account)	(692)					692
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	(121,042)	29,267	(951)			92,726
Total Adjustments to Revenue Resources	(70,044)	32,156	(951)	0	0	38,839
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(1,986)	(11,608)		13,596		(2)
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,927			(1,927)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(10,580)	(2,662)				13,242
Revenue Expenditure Funded from Capital under Statute	10,925					(10,925)
Capital expenditure funded from revenue balances (transfer to the CAA)	(6,428)	(153)				6,581
Total Adjustments between Revenue and Capital Resources	(6,142)	(14,423)	0	11,669	0	8,896
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(18,814)		18,814
Use of the Major Repairs Reserve to finance capital expenditure			(485)			485
Application of capital grants to finance capital expenditure	(19,590)				3,167	16,423
Total Adjustments to Capital Resources	(19,590)	0	(485)	(18,814)	3,167	35,722
Total Adjustments	(95,776)	17,733	(1,436)	(7,145)	3,167	83,457

Notes to the Core Financial Statements

2016/17	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	20,715	2,427				(23,142)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(301)	(485)				786
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	(4,934)					4,934
Holiday Pay (transferred to the Accumulated Absences Account)	3,121					(3,121)
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	40,922	30,801	0			(71,723)
Total Adjustments to Revenue Resources	59,523	32,743	0	0	0	(92,266)
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(3,133)	(16,226)		19,364		(5)
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,947			(1,947)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(10,696)	(2,460)				13,156
Revenue Expenditure Funded from Capital under Statute	5,799					(5,799)
Capital expenditure funded from revenue balances (transfer to the CAA)	(1,207)	(2,658)				3,865
Total Adjustments between Revenue and Capital Resources	(7,290)	(21,344)	0	17,417	0	11,217
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(19,153)		19,153
Use of the Major Repairs Reserve to finance capital expenditure			(845)			845
Application of capital grants to finance capital expenditure	(21,912)				5,983	15,929
Total Adjustments to Capital Resources	(21,912)	0	(845)	(19,153)	5,983	35,927
Total Adjustments	30,321	11,399	(845)	(1,736)	5,983	(45,122)

Notes to the Core Financial Statements

9. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to provide resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2017/18 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4.

Name of Reserve	Balance	2017/18 Transfers		Balance	
	31/03/17 £000	Out £000	In £000	31/03/18 £000	
Specific Revenue Earmarked	71,343	(14,355)	12,163	69,151	(a)
PFI and BSF Schemes	23,892	0	2,172	26,064	(b)
New Homes Bonus Reserve	20,036	(5,325)	9,699	24,410	(c)
Insurance	16,729	(600)	295	16,424	(d)
Capital Programme Expenditure	929	(8,787)	8,735	877	(e)
	132,929	(29,067)	33,064	136,926	
Schools Reserves and External Funds	16,648	(19,406)	25,954	23,196	(f)
	16,648	(19,406)	25,954	23,196	
Total	149,577	(48,473)	59,018	160,122	

a) Specific Earmarked Reserves

These comprise a number of specific reserves which are earmarked for particular purposes.

The Transfers In include £10.9m in 2017/18 due to the reclassification of Creditors after a review to ensure that the accounts are consistent with the Whole of Government Accounts

b) PFI and BSF Schemes Reserves

These reserves enable services to make revenue contributions towards their committed PFI and Building Schools for the Future (BSF) schemes in future years. This now includes the Street Lighting PFI Sinking Fund which was previously reported under the "Specific Revenue Earmarked Reserves" line.

c) New Homes Bonus Reserve

The reserve is made up of unused grant from central government. The grant is based on the amount of extra Council Tax revenue raised for new-build homes, conversions and long-term empty homes brought back into use. Use of the reserve is not ring-fenced.

d) Insurance Reserve

This has been established in order to supplement the insurance provision and covers potential costs arising from self-insured risks.

e) Capital Programme Expenditure Reserve

This reserve will be used to finance capital programme expenditure in future years. £2m has been allocated from Revenue reserves in 2017/18 to fund Capital written off to revenue in year. This was needed due to a delay in planned Capital Receipts being received. It is anticipated that this will be repaid in 2018/19 when the receipts are received.

f) Schools Reserves and Schools External Funds

The Schools Reserves consist of the unspent year-end balances from schools' self-managed budgets. School External Funds are unspent balances from schools' locally generated funds. All these balances are earmarked to be used by schools in future years.

Notes to the Core Financial Statements

10. NON CURRENT ASSETS**a) Non-Current Assets Revaluations**

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the valuers Wilkes, Head and Eve. Where revaluations have occurred in 2017/18, their exact effective date was 28th February 2018 for council dwellings and 31st January 2018 for other assets.

	Council Dwellings £000	Other Land & Buildings £000	Surplus Assets £000	Total £000
Valued at Historic Cost	0	1,879	10,223	12,102
Valued at Current Value				
2017/18	1,220,379	843,038	82,097	2,145,514
2016/17	35,464	165,519	403	201,386
2015/16	0	57	1,900	1,957
2014/15	0	0	0	0
2013/14	0	568	0	568
Total Net Book Value	1,255,843	1,011,061	94,623	2,361,527

b) Movements in Non-Current Assets

The movements in non-current assets during 2017/18 were as follows:

Notes to the Core Financial Statements

2017/18	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 1st April 2017	1,229,227	775,614	53,750	170,686	5,013	77,693	23,115	2,335,098
Additions	1,734	1,836	1,901	9,264	16	7,939	10,908	33,598
Revaluations (recognised in Revaluation Reserve)	46,151	84,706	0	0	0	(1,554)	0	129,303
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	(52)	147,847	0	0	0	(3,215)	0	144,580
Impairments (recognised in Revaluation Reserve)	0	(2,991)	0	0	0	(311)	0	(3,302)
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	(1,371)	0	0	0	(1,508)	0	(2,879)
Disposals	(5,410)	(278)	(2,387)	0	0	0	0	(8,075)
Transfers	(14,979)	9,114	0	421	0	15,777	(10,333)	0
Gross Book Value c/fwd at 31st March 2018	1,256,670	1,014,477	53,264	180,370	5,029	94,821	23,690	2,628,321
Depreciation b/fwd at 1st April 2017	(159)	(942)	(25,885)	(55,793)	(31)	(800)	0	(83,610)
Depreciation for year	(22,059)	(14,797)	(4,584)	(7,153)	(23)	(604)	0	(49,220)
<u>Depreciation written back on:</u>								
Transfers	7	0	0	0	0	(7)	0	0
Revaluations (recognised in Revaluation Reserve)	20,367	8,061	0	0	0	542	0	28,970
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,017	4,262	0	0	0	447	0	5,726
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	0
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0	0	224	0	224
Assets Sold	0	0	2,375	0	0	0	0	2,375
Depreciation c/fwd at 31st March 2018	(827)	(3,416)	(28,094)	(62,946)	(54)	(198)	0	(95,535)
Net Book Value at 31st March 2018	1,255,843	1,011,061	25,170	117,424	4,975	94,623	23,690	2,532,786

Notes to the Core Financial Statements

The movements in non-current assets during 2016/17 were as follows:

2016/17	Council Dwellings £000	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infra-structure Assets £000	Comm. Assets £000	Surplus Assets £000	Assets under Construction £000	TOTAL £000
Gross Book Value b/fwd at 1st April 2016	1,149,956	795,553	58,976	159,096	7,163	76,026	23,992	2,270,762
Additions	1,564	4,014	3,155	11,666	0	3,693	12,952	37,044
Revaluations (recognised in Revaluation Reserve)	87,636	(13,643)	0	0	0	4,585	0	78,578
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	190	(8,821)	0	0	0	54	0	(8,577)
Impairments (recognised in Revaluation Reserve)	0	(663)	0	0	0	(2,589)	0	(3,252)
Impairments (recognised in Surplus/Deficit on the Provision of Services)	(139)	(889)	(504)	0	(2,581)	(13,142)	(4,550)	(21,805)
Disposals	(9,215)	(560)	(7,877)	0	0	0	0	(17,652)
Transfers	(765)	623	0	(76)	431	9,066	(9,279)	0
Gross Book Value c/fwd at 31st March 2017	1,229,227	775,614	53,750	170,686	5,013	77,693	23,115	2,335,098
Depreciation b/fwd at 1st April 2016	(3,643)	(3,966)	(29,312)	(49,179)	(8)	(369)	0	(86,477)
Depreciation for year	(20,444)	(15,665)	(4,625)	(6,633)	(4)	(526)	0	(47,897)
Depreciation written back on:								
<u>Transfers</u>	30	625	0	19	(19)	(655)	0	0
Revaluations (recognised in Revaluation Reserve)	20,447	6,049	0	0	0	35	0	26,531
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	3,434	11,946	0	0	0	80	0	15,460
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	0
Impairments (recognised in Surplus/Deficit on the Provision of Services)	0	65	175	0	0	635	0	875
Assets Sold	17	4	7,877	0	0	0	0	7,898
Depreciation c/fwd at 31st March 2017	(159)	(942)	(25,885)	(55,793)	(31)	(800)	0	(83,610)
Net Book Value at 31st March 2017	1,229,068	774,672	27,865	114,893	4,982	76,893	23,115	2,251,488

Notes to the Core Financial Statements

11. INVESTMENT PROPERTIES

Investment Properties were all reclassified to Property, Plant & Equipment in a previous year (2015/16), hence the nil balance. (See also Section 2 – Accounting Policies – paragraph 24.)

12. FINANCIAL INSTRUMENTS

The Code of Practice requires the accounts to be compliant with IFRS but some of these requirements are not consistent with primary legislation. Where this occurs, the CIES complies with IFRS, with the MiRS containing the reversals required to ensure that the closing balances comply with Statute. The figures shown in the table do not all appear as investments on the face of the balance sheet due to the reclassification of some short term investments as Cash Equivalents under IFRS. Where values are zero, the relevant lines have been excluded from the table.

a) Financial Instruments Balances

	Long-Term		Current		
	31/03/18 £000	31/03/17 £000	31/03/18 £000	31/03/17 £000	
Financial Liabilities (Principal)	179,453	165,910	40,000	25,000	1
Accrued Interest	-	216	2,431	1,854	1
Total Borrowings	179,453	166,126	42,431	26,854	
PFI and Finance Lease liabilities	228,224	236,196	7,945	7,580	
Total Other Liabilities	228,224	236,196	7,945	7,580	
Financial Liabilities at contract amount	-	-	58,186	59,153	2
Total Creditors	-	-	58,186	59,153	

	Long-Term		Current		
	31/03/18 £000	31/03/17 £000	31/03/18 £000	31/03/17 £000	
Loans and Receivables (Principal)	-	-	404,688	368,514	1
Accrued Interest	-	-	680	734	1
Total Investments	-	-	405,368	369,248	
Loans and Receivables	44,948	32,566	-	-	2
Financial Assets at contract amounts	-	-	27,525	31,639	2
Total Debtors	44,948	32,566	27,525	31,639	

1) Under accounting requirements the carrying value of financial instruments is shown in the balance sheet (including the principal amount borrowed or lent and adjustments for accrued interest where relevant). Accrued interest is included in current assets / liabilities where it is due within one year.

2) These are carried at cost as this is a fair approximation of their value. The breakdown of these figures are shown in the appropriate Debtors and Creditors Notes and exclude statutory amounts.

Notes to the Core Financial Statements

Other Required Declarations

There were no reclassifications of financial instruments in the year or the previous year.

There were no unusual movements during the year or the previous year.

The Council provided no financial guarantees in the year and has none outstanding from previous years.

The Council has made no loans to voluntary organisations at less than market rates (soft loans), nor has it received any such loans.

No de-recognition is expected to impact where the Council has transferred financial assets to a third party.

The Council did not hold and did not obtain any collateral for third party debts or other credit enhancements in the year or the previous year.

No allowance for credit losses were made during the year or the previous year.

No defaults or breaches relating to the Council's financial instruments were incurred during the year or the previous year.

Borrowing costs capitalised in the year were £0.474m, at a rate of 4.38%. These were included in interest payable in the CIES.

b) Financial Instruments Gains / (Losses)

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations on financial instruments in 2017/18 or 2016/17, or assets classified as Available for Sale):

	2017/18			2016/17
	Liabilities - Amortised Cost £000	Assets - Loans and Receivables £000	Totals £000	Totals £000
Interest Expense	8,810	-	8,810	9,029
Total Expense in Surplus or Deficit on Provision of Services	8,810	-	8,810	9,029
Interest Income	-	(2,142)	(2,142)	(2,338)
Total Income in Surplus or Deficit on Provision of Services	-	(2,142)	(2,142)	(2,338)
Net (Gain) / Loss for the Year	8,810	(2,142)	6,668	6,691

c) Fair Values of Assets and Liabilities

Financial liabilities and assets represented by loans and receivables are carried on the balance sheet at amortised cost (in long term assets / liabilities with accrued interest in current assets / liabilities). Their fair value can be assessed by calculating the net present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- Borrowing rates from the PWLB have been applied to PWLB loans, termed the New Loan and Premature Repayment Rates;
- For non-PWLB loans, PWLB discount rates as above have been used as a reasonable proxy for market rates;
- For loans receivable prevailing benchmark market rates have been used to provide the fair value;
- No early repayment or impairment is recognised;
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable the fair value is taken to be the carrying amount or the billed amount.

The fair values for loans and receivables have been assessed by reference to Level 2 Inputs, i.e. inputs other than quoted prices that are observable for the financial asset/liability. These give a reasonable estimate for the fair value of a financial instrument, and includes accrued interest.

Notes to the Core Financial Statements

The following tables show the carrying amount of assets and liabilities on the balance sheet compared to the fair value amounts (undisclosed on the balance sheet). The fair value of Public Works Loan Board (PWLB) loans of £122m at the New Loan Rate compares the terms of existing PWLB commitments with the new borrowing rates available from the PWLB, given that the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets (the Certainty rate).

A supplementary measure of the fair value of PWLB commitments is to compare the terms of these loans with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB Premature Repayment Rate. If the authority were to seek to repay the loans to the PWLB, the PWLB would raise a penalty charge for early redemption, based on the repayment interest rates, for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £144m.

	Premature Repayment Rate		New Loan Rate		Premature Repayment Rate		New Loan Rate	
	31/03/18		31/03/18		31/03/17		31/03/17	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	89,945	143,512	89,945	121,980	77,557	130,001	77,557	111,012
Non-PWLB Debt *	131,939	220,451	131,939	179,443	115,423	195,775	115,423	162,336
Total Debt / Liabilities	221,884	363,963	221,884	301,423	192,980	325,776	192,980	273,348
Money Market Investments	411,550	411,702	411,550	411,702	373,191	373,313	373,191	373,313
Long Term Debtors	44,948	44,948	44,948	44,948	32,566	32,566	32,566	32,566
Total Assets	456,498	456,650	456,498	456,650	405,757	405,879	405,757	405,879

*The fair value for non-PWLB debt at the premature repayment rate is provided for illustrative purposes only.

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Key Risks

The Council's activities necessarily expose it to a variety of financial risks. The key risks are:

Credit Risk - The possibility that other parties might fail to pay amounts due to the Council;

Liquidity Risk - The possibility that the Council might not have funds available to meet its commitments to make payments;

Re-financing Risk - The possibility that the Council might need to renew a financial instrument on maturity at disadvantageous interest rates or terms;

Market Risk - The possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates movements.

b) Overall Procedures for Managing Risk

The Council's overall risk management procedures focus on the uncertainty of financial markets, and are structured to implement suitable controls to minimise these risks. They set out a legal framework based on the *Local Government Act 2003* and associated regulations, and require the Council to do the following:

- formally adopt the requirements of the CIPFA Treasury Management Code of Practice;
- adopt a Treasury Policy Statement and include treasury management clauses within its financial regulations/standing orders/constitution;
- approve annually in advance prudential and treasury indicators for the following three years.
- approve an investment strategy for the forthcoming year setting out its criteria for investing and selecting investment counterparties in compliance with Government guidance.

Notes to the Core Financial Statements

These procedures are required to be reported and approved at Council before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year. The annual treasury management strategy which incorporates the prudential indicators was last approved by Council in February 2018 and is available on the Council website. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These are a requirement of the Code of Practice and are reviewed periodically.

c) Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, in accordance with the Fitch, Moody's and Standard & Poor's Credit Ratings Services. This also considers maximum amounts and time limits in respect of each financial institution. The Council uses the creditworthiness service provided by Capita Asset Services which uses a sophisticated modelling approach with credit ratings from all three rating agencies forming the core element. This is combined with credit watches and credit outlooks in a weighted scoring system, with an overlay of CDS spreads for which the end product is an indication of the relative creditworthiness of counterparties.

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to that institution. It is rare for institutions to be unable to meet their commitments and a risk applies to all of the Council's deposits, however at the 31 March 2018 there was no evidence that this was likely to happen.

d) Liquidity Risk

The Council manages its liquidity position through the procedures above as well as using a comprehensive cash flow management system, as required by the CIPFA Code of Practice, which ensures that cash is available when needed. The Council has ready access to borrowings from the money markets to cover any day to day cash flow need and the PWLB and money markets for access to longer term funds. All sums invested are either due to be paid in less than one year or can be easily realised.

e) Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered sufficient to manage the refinancing risk, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. The approved treasury indicator limits for the maturity structure of debt and the limits placed on investments over one year in duration are the key parameters used to address this risk. The Council approved treasury and investment strategies address the main risks and the corporate treasury team address the operational risks within these parameters.

f) Interest Rate Risk

The Council is exposed to interest rate movements on its borrowings and investments and these impact according to how variable and fixed interest rates move across differing financial instrument periods. The Council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy includes expected interest rate movements. A treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure, and this is monitored regularly.

If variable interest rates had been 0.1% higher (with all other variables held constant) the financial effect would be a net increase in income of £0.3m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.3m.

Notes to the Core Financial Statements

14. DEBTORS**a) Long Term Debtors**

These consist of sums repayable to the Council over a period of time of more than one year.

	31/03/18 £000	31/03/17 £000
Lewisham Homes - Loan	26,000	14,000
Catford Regeneration Partnership Ltd (CRPL) - Loan	12,034	12,223
Street Lighting PFI Sinking Fund	3,245	3,245
Lewisham Gateway Development - Loan	2,000	2,000
Land Charges Debts	278	384
Mortgages	155	177
Other Long Term Debtors	1,236	537
Total Long Term Debtors	44,948	32,566

a) Lewisham Homes Loan

A loan of £8m was advanced to Lewisham Homes in 2015/16, a further £6m in 2016/17 and a further £12m in 2017/18. (See Section 6 – Group Accounts.)

b) Catford Regeneration Partnership Limited Loan

A loan of £12m was advanced to CRPL in 2010/11, followed by further loans of £0.25m in 2015/16 and £1m in 2016/17. (See Section 6 – Group Accounts.)

c) Street Lighting PFI Sinking Fund

This fund is held by LB Croydon on behalf of the Council in their role as lead borough for the on-going PFI scheme for the upgrade and maintenance of the borough's street lights.

d) Lewisham Gateway Development

A loan of £2m was advanced to the consortium which is undertaking the Lewisham Gateway development.

e) Other Long Term Debtors

Other long term debtors includes a social investment business loan to Wide Horizons for £0.7m in 2017/18. This totals £1.3m shared between Lewisham and Greenwich.

Notes to the Core Financial Statements

b) Current Debtors

These are short term debts for goods and services which are expected to be repayable within a year.

	31/03/18 £000	31/03/17 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	4,240	4,562
Central Government bodies	4,720	2,464
Other Local Authorities	962	2,866
NHS bodies	16	94
Other Public bodies	80	241
Council Tax Payers	32,307	28,995
NDR Payers	984	1,187
Council Tax Court Costs	8,290	7,389
Housing Benefit Overpayments	25,776	24,172
Housing Rents (inc PSL, B & B, Hostels, Commercial)	8,576	8,935
Leaseholders Services Charges	6,153	4,272
Parking	270	415
LBL Pension Fund	1,315	176
General Debtors due for Supplies and Services	27,316	29,228
Total Current Debtors	121,005	114,996
Impairment Allowances	(75,464)	(67,510)
Total Net Current Debtors	45,541	47,486

c) Impairment Allowances

	Balance at 31/03/17 £000	Movement in 2017/18 £000	Balance at 31/03/18 £000
Council Tax Payers	(26,918)	(2,941)	(29,859)
Council Tax Court Costs	(6,681)	(820)	(7,501)
NDR Payers	(702)	155	(547)
Housing Benefit Overpayments	(17,115)	(1,799)	(18,914)
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(4,656)	642	(4,014)
Leaseholders Services Charges	(1,392)	(610)	(2,002)
General Debtors due for Supplies and Services	(10,046)	(2,581)	(12,627)
Total Impairment Allowances	(67,510)	(7,954)	(75,464)

The above have been determined individually according to the particular factors for each type of debtor.

Notes to the Core Financial Statements

15. CASH AND CASH EQUIVALENTS

	Balance 31/03/17 £000	Movement in 2017/18 £000	Balance 31/03/18 £000
Cash Equivalents			
Short Term Deposits	0		0
Cash			
Money Market Funds	92,461	8,440	100,901
Call Accounts with Banks	0		0
	92,461	8,440	100,901
Other Cash and Bank Balances			
Main Bank Accounts	0	0	0
Other Cash and Bank Accounts	(413)	3,725	3,312
	(413)	3,725	3,312
Total Cash and Cash Equivalents	92,048	12,165	104,213
Bank Accounts Overdrawn			
Main Bank Accounts	(3,370)	(6,391)	(9,761)
Schools Bank Accounts	(162)	430	268
	(3,532)	(5,961)	(9,493)
Net Cash and Cash Equivalents	88,516	6,204	94,720

a) Short term deposits are made for varying periods of between one day and three months (less than 92 days), depending on the immediate cash requirements, and earn interest at the respective rates.

b) The carrying amounts of cash equivalents, cash and bank overdrafts approximate to their fair values.

c) The schools bank accounts are an integral part of the Council's overall cash management arrangements, and are therefore included under Net Cash and Cash Equivalents. They consist of individual accounts for each school, and an overall treasury account which is used to invest the net balance in conjunction with the Council's other balances. The balances on these accounts were £24.7m (2016/17 £15.2m) and overdrawn £24.4m (2016/17 overdrawn £15.3m) respectively.

Notes to the Core Financial Statements

16. CREDITORS

These are amounts owed to the Government and other public bodies and all unpaid sums for goods and services received as at the end of the year.

	31/03/18 £000	31/03/17 £000
Government and other public bodies:		
HM Revenue & Customs	5,619	5,413
Central Government bodies	13,670	4,403
Other Local Authorities	7,118	8,422
NHS bodies	3,722	13,527
Other Public bodies	403	1,571
	30,532	33,336
Short Term Compensated Absences	7,056	7,748
General Creditors (amounts owed for supplies and services)	40,605	35,369
Total Creditors	78,193	76,453

17. REVENUE RECEIPTS IN ADVANCE

	31/03/18 £000	31/03/17 £000
Capital Contributions Unapplied	40,423	32,805
PFI Schemes	23,142	22,486
Council Tax	7,929	7,558
NDR	3,470	2,295
Rents in Advance	5,165	4,161
Revenue Grants and Contributions	5,681	2,264
Other Receipts in Advance	4,683	5,220
Total Receipts in Advance	90,493	76,789

18. PROVISIONS

These are amounts which are set aside to meet liabilities that are likely or certain to arise from events which have taken place, but where it is not possible to determine precisely when the event will take place.

	Balance 31/03/17 £000	2017/18 Transfers		Balance 31/03/18 £000
		Out £000	In £000	
Current (less than 1 year)				
Insurance Provision	2,703	(1,790)	1,619	2,532
Other Provisions	1,055	(5,347)	5,138	846
	3,758	(7,137)	6,757	3,378
Non Current (Over 1 year)				
Insurance Provision	3,726	0	702	4,428
Other Provisions	1,117	(517)	365	965
	4,843	(517)	1,067	5,393
Total - Provisions	8,601	(7,654)	7,824	8,771

Notes to the Core Financial Statements

Insurance Provisions

The Council's insurance programme comprises a mix of external insurance, largely for cover at catastrophe level or where required by contract or lease arrangements, and self-insurance. Dedicated Insurance Provisions and Reserves are maintained to provide 'self-insurance' to meet either uninsured losses or losses that fall below the external insurance excess. The appropriate levels are assessed annually by the Council's insurance actuaries.

19. USABLE CAPITAL RECEIPTS

Capital Receipts are mainly sums received from the sale of non-current assets. Housing capital receipts are subject to pooling arrangements whereby under certain conditions a portion is payable to central government. Non housing capital receipts are wholly usable to finance new capital expenditure. The balance on this account is available to fund future capital expenditure.

	2017/18 £000	2016/17 £000
Balance brought forward at start of year	55,495	57,231
Amounts Received	13,596	19,364
Poolable to Central Government	(1,927)	(1,947)
Amounts applied to finance new capital investment	(18,814)	(19,153)
Total increase/(decrease) in capital receipts in year	(7,145)	(1,736)
Balance carried forward at end of year	48,350	55,495

20. PENSION RESERVE

The Pensions Reserve reflects the timing differences which arise from the accounting treatment for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements ensure that funding will have been set aside by the Council by the time the benefits are due to be paid.

	2017/18 £000	2016/17 £000
Balance brought forward at start of year	(644,264)	(601,806)
Actuarial gains or losses on pensions assets and liabilities	38,950	(19,316)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(67,129)	(57,622)
Employer's pensions contributions and direct payments to pensioners payable in the year	32,708	34,480
Balance carried forward at end of year	(639,735)	(644,264)

Notes to the Core Financial Statements

21. REVALUATION RESERVE

The Revaluation Reserve records the accumulated gains since 1st April 2007 on non-current assets held by the Council arising from increases in value (to the extent that these gains have not been consumed by subsequent downward movements in value). The Reserve is also debited with the part of the depreciation that has been incurred because the asset has been revalued. On disposal of an asset, its Revaluation Reserve balance is written out to the Capital Adjustment Account. The overall balance on the Reserve thus represents the amount by which the value of non-current assets carried in the Balance Sheet is greater because they are carried at revalued amounts rather than depreciated historical cost.

	2017/18 £000	2016/17 £000
Balance brought forward at start of year	890,273	808,913
Revaluation of Assets	158,273	105,109
Impairment Losses	(3,302)	(3,252)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	154,971	101,857
Difference between fair value and historic cost depreciation	(17,086)	(15,946)
Accumulated gains on assets sold or scrapped	(2,676)	(4,551)
Amount written off to the Capital Adjustment Account	(19,762)	(20,497)
Balance carried forward at end of year	1,025,482	890,273

Notes to the Core Financial Statements

22. CAPITAL ADJUSTMENT ACCOUNT

This reflects the timing differences arising from the accounting treatment for the use of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling entries from the Revaluation Reserve to convert fair value figures to a historical cost basis). It is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

	2017/18 £000	2016/17 £000
Balance brought forward at start of year	895,587	899,650
<u>Reversal of capital expenditure items debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	98,431	(61,954)
Revenue expenditure funded from capital under statute	(10,925)	(5,799)
Non-current assets written off on disposal - gain/loss to the CIES	(3,029)	(5,217)
	84,477	(72,970)
Adjusting amounts written out of the Revaluation Reserve	17,086	15,960
Net amount written out of the cost of non-current assets consumed in the year	101,563	(57,010)
<u>Capital Financing applied in the year:</u>		
Use of Capital Receipts to finance new capital expenditure	18,814	19,153
Use of Major Repairs Reserve to finance new capital expenditure	485	844
Capital grants and contributions credited to the CIES	16,423	15,929
Statutory Provision for the financing of capital investment	5,534	6,089
Repayment of Principal on PFI schemes	7,708	7,067
Capital expenditure charged to General Fund and HRA	6,582	3,865
	55,546	52,947
Balance carried forward at end of year	1,052,696	895,587

Notes to the Core Financial Statements

23. EXPENDITURE AND INCOME ANALYSED BY NATURE

	2017/18 £000	2016/17 £000
Employee expenses - LBL	266,309	273,772
Employee expenses - Schools not part of LBL Payroll	58,363	58,558
Other Expenditure	698,834	660,534
Depreciation, amortisation and impairment	(98,431)	61,954
Interest payments	34,169	34,995
Loan Restructuring	23,314	0
Precepts and levies	1,638	1,632
Payments to Housing Capital Receipts Pool	1,927	1,947
Gain or loss on disposal of non-current assets	0	0
Net interest on the net defined benefit liability	17,042	21,152
Total Expenditure	1,003,165	1,114,544
Government grants and contributions	(648,754)	(662,253)
Fees, Charges and Other service income	(236,465)	(220,114)
Interest and Investment income	(3,050)	(3,002)
Income from council tax, non-domestic rates, district rate income	(189,915)	(176,610)
Recognised Capital Grants and Contributions	(18,474)	(15,577)
Gain or loss on disposal of non-current assets	(8,182)	(9,823)
Other Income	0	0
Total Income	(1,104,840)	(1,087,379)
(Surplus) or Deficit on the Provision of Services	(101,675)	27,165

24. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2017/18 (nor 2016/17).

In 2017/18 the Council operated a pooled budget as defined by the terms of a Section 75 Agreement (National Health Service Act 2006). The pooled budget is hosted by Lewisham Borough Council ("LBL") on behalf of LBL and NHS Lewisham CCG being the two partners to the agreement.

Pooled Budget - Better Care Fund

	2017/18 £000	2016/17 £000
Funding provided to the pooled budget:		
Lewisham Borough Council	(9,683)	(1,781)
NHS Lewisham CCG	(20,425)	(20,165)
	(30,108)	(21,946)
Expenditure met from the pooled budget:		
Lewisham Borough Council	18,194	11,206
NHS Lewisham CCG	11,914	10,740
	30,108	21,946
Net surplus arising in year	0	0

Note:

- (i) The LBL share of any in-year net surplus would be 9.6%. This was nil in 2017/18 (and 2016/17) due to there not being a surplus.

Notes to the Core Financial Statements

25. INVESTMENT IN COMPANIES**a) Companies of which the Council is the sole owner.**

The Council is sole owner of two companies:

- i) Lewisham Homes Limited
- ii) Catford Regeneration Partnership Limited

Further detail on these companies is given in the Group Accounts section of these statements.

b) Companies of which the Council is a joint owner or shareholder.**i) Lewisham Schools for the Future LEP and SPV's**

The Council has a stake of 10% in Lewisham Schools for the Future LEP Limited which is the Local Education Partnership company also comprising Costain Engineering & Construction Limited, Babcock Project Investments Limited and Building Schools for the Future Limited as well. It was established under the Council's Building Schools for the Future (BSF) programme to rebuild and refurbish the secondary schools within the Borough.

The Council also has a 10% stake in four Special Purpose Vehicles which were set up in relation to the schools which were built within this BSF Programme. Amounts paid to these companies in 2017/18 are shown in brackets and are included in the Resources & Regeneration line of the CIES.

The companies concerned are Lewisham SPV Ltd (£9.0m), Lewisham SPV2 Ltd (£3.0m), Lewisham SPV3 Ltd (£4.4m) and Lewisham SPV4 Ltd (£8.3m). The Head of Financial Services is the Council's Director on all of these companies' boards. The corporate structure is standard to BSF schemes.

ii) South-East London Combined Heat and Power Ltd (SELCHP)

The Council has a minority share of less than 1% in South-East London Combined Heat and Power Ltd (SELCHP) which is a joint venture with the London Borough of Greenwich for the provision of waste disposal and waste to energy services. Payments of £4.6m were made in 2017/18 to the company (£5.4m in 2016/17) and are included in the Customer Services line of the CIES.

iii) Newable Ltd

The Council has a minority share in Newable Ltd (formerly Greater London Enterprise Ltd) which is a company limited by guarantee and provides property management & consultancy services. No payments were made by the Council in 2017/18.

26. MEMBERS' ALLOWANCES

The Council paid the following amounts to elected members of the Council during the year.

	2017/18 £000	2016/17 £000
Allowances (incl. NI)	939	932
Other Expenses	86	70
Total Expenditure in Year	1,025	1,002

Notes to the Core Financial Statements

27. OFFICERS' REMUNERATION

a) The number of Employees whose Remuneration was £50,000 or more:-

Remuneration Band	Non-Schools		Schools		Totals	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
£50,000 to £54,999	68	51	162	178	230	229
£55,000 to £59,999	26	24	86	89	112	113
£60,000 to £64,999	18	16	55	54	73	70
£65,000 to £69,999	14	17	26	23	40	40
£70,000 to £74,999	10	8	28	26	38	34
£75,000 to £79,999	3	2	18	19	21	21
£80,000 to £84,999	2	2	8	9	10	11
£85,000 to £89,999	2	0	8	9	10	9
£90,000 to £94,999	0	1	7	5	7	6
£95,000 to £99,999	8	7	2	2	10	9
£100,000 to £104,999	4	1	2	1	6	2
£105,000 to £109,999	1	1	3	4	4	5
£110,000 to £114,999	0	1	0	0	0	1
£115,000 to £119,999	2	2	1	1	3	3
£120,000 to £124,999	0	0	2	0	2	0
£125,000 to £129,999	0	0	0	0	0	0
£130,000 to £134,999	0	0	0	0	0	0
£135,000 to £139,999	0	1	0	0	0	1
£140,000 to £144,999	3	3	0	0	3	3
£150,000 to £154,999	0	1	0	0	0	1
£150,000 to £154,999	1	0	0	0	1	0
Total	162	138	408	420	570	558

Note - These figures include the senior employees disclosed separately in note b) below.

Notes to the Core Financial Statements

b) Disclosure of Senior Employees' Remuneration

The definition of a "Senior Employee" is set out in Regulation 7 of the Accounts and Audit (England) Regulations 2011 (SI 2011/817). In summary, they are either a statutory chief officer, or have the power to direct or control the major activities of the council or report direct to the head of the council's paid service. They are not the same group of senior staff whose salaries are published on the Council's website.

Financial Year 2017/18**Senior Employees**

Executive Director for Children and Young People	143,961	32,391	176,352
Executive Director for Resources and Regeneration - Ms J Senior (a)	155,083	34,894	189,977
Executive Director for Community Services	143,961	32,391	176,352
Executive Director for Customer Services	143,961	32,391	176,352
Chief Executive (Part time) (b)	116,552	0	116,552
Director of Children's Social Care and Health	117,060	26,339	143,399
Director of Public Health	123,240	16,683	139,923
Head of Law and Monitoring Officer (Part time)	65,819	14,809	80,628

Totals

Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
£	£	£
1,009,637	189,898	1,199,535

(a) Salary includes an allowance for acting as Chief Executive following the resignation of the previous postholder

(b) The Chief Executive resigned effective from 31 January 2018. A new postholder will commence in May 2018.

Financial Year 2016/17**Senior Employees**

Executive Director for Children and Young People	139,871	31,471	171,342
Executive Director for Resources and Regeneration	142,536	32,071	174,607
Executive Director for Community Services	143,472	32,281	175,753
Executive Director for Customer Services	142,536	32,071	174,607
Chief Executive (Part time)	116,586	0	116,586
Director of Children's Social Care and Health	115,974	26,094	142,068
Director of Public Health - Dr D Ruta (a)	153,874	18,200	172,074
Head of Law and Monitoring Officer (Part time)	66,067	14,865	80,932

Totals

Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
£	£	£
1,020,916	187,053	1,207,969

(a) Dr Ruta's total remuneration includes £26,414 in pay arrears backdated from 01/04/13 to 28/02/17

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made to any of these employees in 2017/18 (or 2016/17).

Notes to the Core Financial Statements

c) Termination Benefits - Exit Packages Agreed in Year

The number and cost of exit packages granted to employees in the year are shown below. These costs include redundancy payments to employees which were charged to the CIES. They also include payments to the Pension Fund in respect of the extra pension costs of employees who were granted early access to their pensions.

Cost Band (inc Pension Fund Contributions)

	Total Number of Exit Packages		Total Cost of Exit Packages	
	2017/18 No.	2016/17 No.	2017/18 £000	2016/17 £000
£0 to £20,000	78	70	609	435
£20,001 to £40,000	14	26	380	782
£40,001 to £60,000	3	14	135	670
£60,001 to £80,000	2	3	130	200
£80,001 to £100,000	2	3	180	258
Total	99	116	1,434	2,345

28. EXTERNAL AUDIT COSTS

	2017/18 £000	2016/17 £000
External Audit Services	193	193
Certification of Grant Claims and Returns	41	41
Other services provided by the appointed auditor	11	10
	245	244

The Council's External Auditors are Grant Thornton.

Notes to the Core Financial Statements

29. DEDICATED SCHOOLS' GRANT

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG) provided by the DfE. The DSG is ring-fenced and can only be used to meet expenditure as defined in the School Finance (England) Regulations 2011. The Schools Budget includes elements for a range of educational services provided on a Council wide basis and for the Individual Schools Budget (ISB), which is divided into a budget share for each maintained school.

	2017/18			Restated 2016/17		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
Final DSG before academy recoupment			289,626			282,643
Academy figure recouped			(29,441)			(26,804)
Total DSG after academy recoupment			260,185			255,839
Brought forward from previous year			0			0
Carry forward to next year agreed in advance			0			0
Agreed initial budgeted distribution	71,632	188,553	260,185	64,406	191,433	255,839
In year adjustments	(801)		(801)	1,246	0	1,246
Final Budget Distribution	70,831	188,553	259,384	65,652	191,433	257,085
Actual Central Expenditure	70,831		70,831	65,652		65,652
Actual ISB deployed to schools		188,553	188,553		191,433	191,433
Carry Forward	0	0	0	0	0	0

30. GRANT INCOME

The following grants were credited to services during the year:

	2017/18 £000	2016/17 £000
Dedicated Schools Grant	(259,656)	(257,242)
Housing Benefit Grant	(217,325)	(225,422)
Housing Subsidy/ Decent Homes Backlog Grant	(10,353)	(10,353)
BSF/ Grouped Schools PFI Unitary Charge Grant	(26,290)	(26,346)
Public Health Grant	(24,967)	(25,598)
Pupil Premium Grant	(15,125)	(15,877)
Other Grants	(36,537)	(26,231)
Total	(590,253)	(587,069)

Notes to the Core Financial Statements

31. RELATED PARTY TRANSACTIONS

The Council is required to disclose material transactions with related parties, which are bodies or individuals that have the potential to control or influence the Council or to be controlled by the Council.

(a) Central Government and Other Local Authorities

Central government exerts significant influence over the Council through legislation and grant funding. The general government grants received are shown in Note 30 to the Core Financial Statements. The precept to the Greater London Authority is shown in the notes of the Collection Fund in Section 5 of these Accounts. There were numerous other transactions between the Council and other Local Authorities.

(b) Subsidiaries, Associated Companies and Joint Ventures

The companies that are related to the Council are detailed in Note 25 to the Core Financial Statements.

(c) Elected Members (Councillors) and Chief Officers

Councillors have direct control over the Council's financial and operating policies, and their total cost is shown in Note 26. They are required to declare all related party transactions which they have with any organisation in which they have a controlling interest. This information is recorded on the Council's Register of Members and Chief Officers' Declarations of Interests and is open to public inspection at the Civic Suite at Lewisham Civic Suite during office hours. The information is also published on the Council's website. The Council is compliant with the Localism Act 2012. The material instances (over £100,000) where a Councillor has declared a related party transaction are as follows:

- **Councillor Alan Till is a board member of the Marsha Phoenix Memorial Trust (£0.201m)**
- **Councillor Brenda Dacres is a board member of the Albany Trust (£0.868m)**

(d) Lewisham Pension Fund

The Pension Fund Accounts are included in Section 7 of this document.

Notes to the Core Financial Statements

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

The capital expenditure incurred in the year (excluding the value of assets acquired under finance leases and PFI contracts) and the resources used to finance it are shown below. Any expenditure which is not financed in the year will add to the Capital Financing Requirement (CFR), which measures the capital expenditure incurred historically by the Council that has yet to be financed. The Council is required to set aside an amount each year (the Minimum Revenue Provision - MRP) to repay debt, this reduces the CFR.

	2017/18 £000	2016/17 £000
Opening Capital Financing Requirement	242,638	241,725
Capital Investment		
Property, Plant and Equipment	46,297	40,963
Revenue Expenditure Funded from Capital under Statute	10,925	5,799
	57,222	46,762
Resources Used for Financing		
Capital Receipts	(18,814)	(19,153)
Government Grants and Other Contributions	(18,479)	(15,898)
Sums set aside from Revenue:	(5,012)	(4,709)
	(42,305)	(39,760)
Increase in the underlying need to borrowing	14,917	7,002
Debt Redeemed - Minimum Revenue Provision	(5,534)	(6,089)
Increase/ (decrease) in Capital Financing Requirement	9,383	913
Closing Capital Financing Requirement	252,021	242,638

33. LEASES**a) Council as a Lessee**i) Finance Leases

The council does not have any assets held under Finance Leases.

ii) Operating Leases

The Council has operating leases in the areas of Council Dwellings, School Plant and Equipment and Refuse Vehicles. The expenditure charged to services in the CIES during the year in relation to these leases was £1.6m (£1.5m in 2016/17). The future minimum lease payments due under non-cancellable leases in futures are:

	31/03/18 £000	31/03/17 £000
Not later than one year	1,427	1,258
Later than one year and not later than five years	3,017	2,896
Later than five years	18,824	14,794
	23,268	18,948

Notes to the Core Financial Statements

b) Council as a Lessori) Finance Leases

The council does not have any assets held under Finance Leases.

ii) Operating Leases

The Council leases out a number of commercial properties for Investment purposes. The future minimum lease payments receivable under non-cancellable leases in future years are:

	31/03/18 £000	31/03/17 £000
Not later than one year	1,842	2,091
Later than one year and not later than five years	3,206	4,614
Later than five years	1,258	2,258
	6,306	8,963

34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS**a) Summary of PFI Schemes**

PFI Scheme	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
Total Estimated Cost	£287m	£77m	£227m	£241m	£86m	£118m	£224m	£95m
Total PFI Credits	£207m	£30m		£674m				£54m
Net PFI Cost	£80m	£47m		£222m				£41m

b) Payments made under PFI contracts

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2017/18									
Service Charges	8,156	456	3,402	3,204	860	933	1,702	779	19,492
Interest	4,369	1,604	3,313	4,178	1,788	2,660	5,232	2,392	25,536
Liability Repayment	2,662	231	737	1,392	348	698	1,101	538	7,707
Unitary Charge	15,187	2,291	7,452	8,774	2,996	4,291	8,035	3,709	52,735
2016/17									
Service Charges	7,798	437	3,182	2,822	769	857	1,434	897	18,196
Interest	4,563	1,606	3,393	4,342	1,827	2,693	5,307	2,235	25,966
Liability Repayment	2,460	306	735	1,470	361	671	1,171	532	7,706
Unitary Charge	14,821	2,349	7,310	8,634	2,957	4,221	7,912	3,664	51,868

c) Movement in PFI Assets in year

The assets which are used to provide the services under these PFI contracts are recognised within the Council's Balance Sheet. The movements in value over the year are detailed in the following table.

Notes to the Core Financial Statements

	2017/18		2016/17	
	£000	£000	£000	£000
Gross Book Value b/fwd		336,938		324,467
Additions		355		3,076
Revaluations (recognised in Revaluation Reserve)	48,076		5,419	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	22,945	71,021	5,133	10,552
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(355)	(355)	0	0
Disposals		(372)		(1,157)
Transfers		0		0
Assets reclassified (to)/ from Held for Sale		0		0
Gross Book Value c/fwd		407,587		336,938
Depreciation b/fwd		(2,675)		(1,632)
Depreciation for year		(7,215)		(6,981)
<u>Depreciation written back on:</u>				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	4,215		3,462	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,372	5,587	2,474	5,936
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0		0	0
Assets sold		0		2
Depreciation c/fwd		(4,303)		(2,675)
Net Book Value at End of Year		403,283		334,262

d) PFI Liabilities

The unitary payments made to the contractors have been calculated to pay them the fair value of the services they provide, the capital expenditure they have incurred and interest they will pay whilst the capital expenditure remains to be reimbursed. The Council's total outstanding liability to the contractors is shown in the following table.

	Current Liabilities (Due within 1 Year)		Deferred (Future) Liabilities	
	2017/18 £000	2016/17 £000	2017/18 £000	2016/17 £000
Balance outstanding at start of year	7,580	7,706	236,196	240,061
Balance outstanding at end of year	7,945	7,580	228,124	236,196

Notes to the Core Financial Statements

e) Payments due under PFI contracts in future years

The Council makes an agreed payment each year which is linked to inflation and can be reduced if the contractor fails to meet availability and performance standards. The following table shows the estimated payments due to be paid (as part of a unitary charge) for each PFI. The price base is in nominal terms assuming a 1.9% RPI increase per annum compounded until the end of the contract. The amounts are broken down into the different elements of the payments reflecting how they will be accounted for.

Note: Amounts shown for Brockley HRA PFI relate only to the unitary charge for tenanted properties.

	In 2018/19	2 to 5 years	6 to 10 years	11 to 15 years	16 to 20 years	21 to 25 years	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Brockley HRA							
Service charges	7,952	36,580	40,006				84,538
Interest	4,142	13,072	8,091				25,305
Repayment of liability	2,954	12,504	20,303				35,761
Planned lifecycle replacement	428	2,454	2,369				5,250
Downham Lifestyles							
Service charges	235	999	1,396	1,580	1,787	385	6,382
Interest	1,563	6,373	8,078	7,628	6,674	1,115	31,430
Repayment of liability	116	639	1,404	2,197	3,972	1,140	9,467
Planned lifecycle replacement	246	1,049	1,479	1,687	1,909	411	6,780
Grouped Schools							
Service charges	2,722	11,681	16,566	19,064	13,335		63,368
Interest	3,231	12,049	12,826	9,383	2,773		40,261
Repayment of liability	769	3,501	6,737	12,162	11,175		34,345
Planned lifecycle replacement	853	4,157	5,515	4,032	2,410		16,967
BSF 1							
Service charges	2,582	11,128	15,895	18,435	8,173		56,213
Interest	3,959	14,751	14,656	8,981	441		42,789
Repayment of liability	1,212	6,255	11,013	17,935	7,921		44,336
Planned lifecycle replacement	1,143	4,549	6,977	6,542	2,522		21,733
BSF 2							
Service charges	772	3,285	4,590	5,193	5,156		18,995
Interest	1,759	6,563	7,116	5,301	2,134		22,874
Repayment of liability	393	1,582	2,902	4,834	6,813		16,525
Planned lifecycle replacement	102	967	1,602	1,772	1,855		6,299
BSF 3							
Service charges	958	4,155	6,628	8,315	8,452		28,509
Interest	2,605	9,907	10,539	7,738	4,058		34,846
Repayment of liability	682	3,347	5,001	6,742	9,172		24,945
Planned lifecycle replacement	99	464	1,382	2,263	2,331		6,539
BSF 4							
Service charges	1,621	7,550	11,286	14,000	16,934		51,391
Interest	5,160	19,717	21,661	16,552	8,813		71,903
Repayment of liability	1,232	5,035	8,807	12,540	19,040		46,655
Planned lifecycle replacement	111	1,055	2,044	3,325	4,596		11,131
Streetlighting							
Service charges	798	3,397	4,746	5,370	4,000		18,311
Interest	2,359	9,018	9,919	7,524	2,994		31,814
Repayment of liability	585	2,895	5,260	7,944	7,450		24,135
Planned lifecycle replacement	0	0	0	0	0		0
Totals	53,344	220,679	276,795	219,041	166,888	3,050	939,796

Notes to the Core Financial Statements

35. LONG TERM CONTRACTS

The table below shows the significant long term contracts that the Council has entered into:

Contract Name	Contractor	Start/ End Date	Total Contract Value
School Meals Catering Contract	Chartwells	May-15/ Apr-20	£40m
Parks and Open Spaces	Glendale Grounds Management	Mar-10/ Feb-20	£26.1m
Leisure Centre Management	Fusion Lifestyles	Oct-12/ Oct-27	£12.7m
Parking Contract	NSL	Aug-13/ Jul-19	£10.8m
Highway Maintenance Contract	FM Conway	Apr-14/ Mar-19	£7.5m
Data Centre Provision	Logicalis	Apr-11/ Mar-21	£4.0m

36. DEFINED CONTRIBUTION PENSION SCHEMES

The Teachers and the National Health Service Pension Schemes are technically defined benefit schemes. However, their assets and liabilities cannot reliably be identified at individual employer level and therefore for the purposes of the Council's accounts they are accounted for as defined contribution schemes.

Teachers employed by the Council are members of the Teachers' Pension Scheme, which is run by the Department for Education (DfE). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DfE use a notional fund to set a national employers contribution rate based on a percentage of members' pensionable pay – in 2016/17 this rate was 16.48% (14.1% for the first part of 2015/16 then 16.48%). In 2016/17, the Council paid £14.9m to the DfE in respect of teachers' pension costs (£13.9m in 2015/16).

Public Health staff employed by the Council are members of the NHS Pension Scheme, which is run by the Department of Health (DoH). The scheme provides benefits upon retirement with both the Council and the employee making contributions to the scheme. The scheme is "unfunded" and the DoH use a notional fund to set a national employers contribution rate based on a percentage of members pensionable pay – this rate was 14.3% for 2016/17 (14.0% in 2015/16). In 2016/17 the Council paid £0.087m to the DoH in respect of employees' pension costs (£0.115m in 2015/16).

37. DEFINED BENEFIT PENSION SCHEMES**a) Participation in Pension Schemes**

The Council offers retirement benefits as part of the terms and conditions of staff employment. Although these benefits will not actually be payable until employees retire, the Council is committed to making these payments, and they are required to be disclosed at the time that employees earn their future entitlement. The Council makes contributions on behalf of its employees to the Local Government Pension Scheme (LGPS) and the London Pensions Fund Authority (LPFA). These are defined benefit final salary schemes, meaning that both the Council and the employees pay contributions into a fund, calculated at a level which is intended to balance the pensions liabilities with investment assets.

Notes to the Core Financial Statements

b) Assessment of the Assets and Liabilities of the Pension Schemes

These are assessed on an actuarial basis using the projected unit method and an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. They have been prepared by independent firms of actuaries (the LGPS by Hymans Robertson and the LPFA by Barnett Waddingham), and are based on IAS19 assumptions and calculations for the year and the latest triennial valuations as at 31st March 2016. It should be noted the Council has guaranteed any pension liability that may arise for its wholly owned subsidiary, Lewisham Homes and as such the figures shown in the balance sheet incorporate the figures for Lewisham Homes.

c) Transactions relating to Retirement Benefits

In accordance with IAS19, the Council recognises the cost of retirement benefits relating to these schemes in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the required charge to the Council Tax is based on the cash paid in the year so the real cost of retirement benefits is reversed out of the General Fund via the MiRS. The following transactions were made during the year in the CIES and the General Fund Balance via the MiRS:

Comprehensive Income and Expenditure Statement**Cost of Service**

Current Service Cost

49,734

35,679

Past Service Cost (inc.settlements and curtailments)

456

791

50,190

36,470

Financing and Investment Income and ExpenditureNet Interest on the Net Defined Benefit Liability

Interest Income on Scheme Assets

(32,615)

(36,207)

Interest Cost on Defined Benefit Obligation (Liabilities)

49,554

57,359

16,939

21,152

Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services

67,129

57,622

Remeasurements of the Net Defined Benefit Liability

Return on Assets excluding amounts included in Net Interest

(816)

(204,685)

Actuarial Losses from changes in Demographic Assumptions

0

(18,395)

Actuarial Losses from changes in Financial Assumptions

(35,883)

291,213

Other Gains and Losses

(2,251)

(48,817)

Total Remeasurements recognised in CIES

(38,950)

19,316

Total Post Employment Benefits Charged to the CIES

28,179

76,938

Movement in Reserves Statement

Reversal of Net Charges made to the the Surplus or Deficit on the Provision of Services

(67,129)

(57,622)

Employers' Contributions Payable to the Scheme

816

34,480

Return on Assets excluding amounts included in Net Interest

38,134

204,685

Actuarial Gains and Losses

(28,179)

(224,001)

Net Movement in Pensions Reserve

(28,179)

(42,458)

Notes to the Core Financial Statements

d) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/18 £000	31/03/17 £000
Fair Value of Plan Assets	1,293,992	1,273,563
Present Value of Defined Benefit Liability (Obligation)	(1,933,727)	(1,843,419)
	(639,735)	(569,856)
Present Value of Unfunded Liabilities	0	(74,408)
Pensions Reserve - Year End Balance	(639,735)	(644,264)

e) Reconciliation of the Movements in the Fair Value of Scheme Assets

	31/03/18 £000	31/03/17 £000
Opening Fair Value of Scheme Assets	1,273,563	1,045,251
Interest Income on Scheme Assets	32,615	36,207
Administration	(103)	(89)
<u>Remeasurement Gains / Losses</u>		
Return on Assets excluding amounts included in Net Interest	816	204,685
Employer Contributions	28,109	29,519
Contributions in respect of Unfunded Benefits	4,599	4,961
Contributions from Scheme Participants	8,409	8,409
Benefits Paid	(49,417)	(50,582)
Unfunded Benefits Paid	(4,599)	(4,961)
Other Gains and Losses	0	163
Closing Fair Value of Scheme Assets	1,293,992	1,273,563

Notes to the Core Financial Statements

f) Reconciliation of the Movements in the Present Value of Scheme Liabilities

	31/03/18 £000	31/03/17 £000
Opening Present Value of Scheme Liabilities (Obligations)	(1,917,827)	(1,647,057)
Current Service Cost	(49,631)	(35,679)
Interest Cost on Defined Benefit Obligation (Liabilities)	(49,554)	(57,270)
Contributions from Scheme Participants	(8,409)	(8,409)
<u>Remeasurement Gains / Losses</u>		
Benefits Paid	49,417	50,582
Unfunded Benefits Paid	4,599	4,961
Actuarial Losses from changes in Demographic Assumptions	0	18,395
Actuarial Losses from changes in Financial Assumptions	35,883	(291,213)
Other Gains and Losses	2,251	48,654
Past Service Costs / Curtailments / Settlements	(456)	(791)
Closing Present Value of Scheme Liabilities (Obligations)	(1,933,727)	(1,917,827)

g) Pension Scheme Assets

	31/03/18			31/03/17		
	Active Market £000	Not in Active Markets £000	Total £000	Active Market £000	Not in Active Markets £000	Total £000
LGPS (LBL and LH)						
Equities	0	0	0	0	10,367	10,367
Debt Securities	115,056	0	115,056	110,095	0	110,095
Real Estate	0	96,429	96,429	0	113,020	113,020
Investment Funds / Unit Trusts	802,824	70,846	873,670	873,333	9,640	882,973
Private Equity	0	27,278	27,278	0	29,724	29,724
Cash and Cash Equivalents	0	101,709	101,709	0	48,178	48,178
Total LGPS Assets	917,880	296,262	1,214,142	983,428	210,929	1,194,357

	31/03/18			31/03/17		
	Active Market £000	Not in Active Markets £000	Total £000	Active Market £000	Not in Active Markets £000	Total £000
LPFA						
Equities	39,746	9,080	48,826	39,073	7,860	46,933
LDI Cashflow matching	0	0	0	0	0	0
Target Return Portfolio	9,737	8,158	17,895	9,511	7,225	16,736
Infrastructure	0	3,493	3,493	401	3,770	4,171
Commodities	0	0	0	0	0	0
Properties	0	5,746	5,746	0	4,038	4,038
Cash	3,890	0	3,890	7,328	0	7,328
Total LPFA Assets	53,373	26,477	79,850	56,313	22,893	79,206

Notes to the Core Financial Statements

h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2017/18	2016/17	2017/18	2016/17
Rate of Inflation – CPI	2.4%	2.4%	2.4%	2.4%
Salary Increase Rate	3.1%	3.1%	3.9%	3.9%
Pensions Increases	2.4%	2.4%	2.4%	2.4%
Rate for discounting scheme liabilities	2.7%	2.6%	2.5%	2.2%
Mortality assumptions				
Longevity at 65 for current pensioners - Men	22.2yrs	22.2yrs	21.0yrs	20.9yrs
Longevity at 65 for current pensioners - Women	24.6yrs	24.6yrs	24.0yrs	23.9yrs
Longevity at 65 for future pensioners - Men	24.0yrs	24.0yrs	23.4yrs	23.2yrs
Longevity at 65 for future pensioners - Women	26.5yrs	26.5yrs	26.3yrs	26.2yrs

i) Sensitivity Analysis

Change in Assumption at 31st March 2018	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
LGPS - LB Lewisham		
0.5% Decrease in Real Discount Rate	9%	159,168
1 Year Increase in Member Life Expectancy	4%	70,741
0.5% Increase in the Salary Increase Rate	1%	15,389
0.5% Increase in the Pension Increase Rate	8%	142,278
LGPS - Lewisham Homes		
0.5% Decrease in Real Discount Rate	11%	15,871
1 Year Increase in Member Life Expectancy	4%	5,771
0.5% Increase in the Salary Increase Rate	2%	2,335
0.5% Increase in the Pension Increase Rate	10%	13,323
LPFA		
0.5% Decrease in Real Discount Rate	n/a	238
1 Year Increase in Member Life Expectancy	n/a	242
0.5% Increase in the Salary Increase Rate	n/a	235
0.5% Increase in the Pension Increase Rate	n/a	238

These are based on reasonably possible changes to the assumptions occurring at the end of the year and assumes for each change that the assumption changes while all the other assumptions remain constant.

j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve an increased funding level over the next 3 years. Funding levels are monitored on an annual basis and the next triennial valuation is due at 31st March 2019. The Council anticipates paying £25.5m in contributions to the scheme in 2018/19.

The scheme will need to assess and take account of the national changes to the Local Government Pension Scheme and other main public service schemes under the Public Pensions Services Act 2013. These took effect from 1st April 2014 and provided for regulations to be made within a common framework to establish new career average earnings provisions to pay pensions and other benefits.

Notes to the Core Financial Statements

38. CONTINGENT LIABILITIES

A contingent liability is an item of expenditure that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council had the following contingent liabilities:

As indicated in the Narrative Statement, the total of school deficits / loans stands at just over £1.5m at the end of 2017/18. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this £1.5m may ultimately fall to be met from the Council's General Fund, either in 2018/19 or a later year.

Additionally, there is also potential liability around redundancy costs of circa £0.8m (based on 2017/18 figures). These costs arise from schools implementing management action to reduce staffing in order to balance their budgets. At the moment there is a grey area as to who will bear the ultimate liability and the Council is discussing with DFE and its Legal adviser on this matter.

In addition, the NHS has a current application for charitable status. If accepted this would require a backdated payment of around £8m by the Council and an ongoing annual loss of business rates of £1.5m.

39. CONTINGENT ASSETS

A contingent asset is an item of income that is likely but not certain and is subject to a further event or decision. At the date of approval of the Accounts the Council has no contingent assets.

40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31st March 2018 was £0.2m (£1.0m as at 31st March 2017).

41. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31st March 2018 is £0.26m (£0.26m as at 31st March 2017).

The Council has two other "categories" of heritage asset which have not been included on the Balance Sheet. 28 assets, mainly works of art with a total insurance value of approximately £45,000, have individual insurance values which are immaterial. Another 28 assets, mainly paintings and sculptures, have not been included on the balance sheet because the cost of obtaining valuations is not felt to be economic to the benefits of the users of the accounts.

Notes to the Core Financial Statements

42. CASH FLOW STATEMENT - ADJUSTMENT TO SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES FOR NON-CASH MOVEMENTS

	2017/18 £000	2016/17 £000
Depreciation, Impairment and Downward Valuations	(98,431)	57,843
Increase/ (decrease) in creditors	8,056	10,906
(Increase)/ decrease in debtors	(224)	2,702
(Increase)/ decrease in inventories (stock)	29	10
Movement in pension liability	34,421	23,142
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	5,705	9,749
Other non-cash items charged to the net surplus or deficit on the provision of services	168	1,146
Total Adjustment to net surplus or deficit on the provision of services for non-cash movements	(50,276)	105,498

43. CASH FLOW STATEMENT - ADJUSTMENT FOR ITEMS INCLUDED IN THE NET SURPLUS OR DEFICIT ON THE PROVISION OF SERVICES THAT ARE INVESTING AND FINANCING ACTIVITIES

	2017/18 £000	2016/17 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	0	140
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(13,594)	(19,359)
Any other items for which the cash effects are investing or financing cash flows.	(19,591)	(21,912)
Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(33,185)	(41,131)

44. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2017/18 £000	2016/17 £000
Interest Received	3,156	3,130
Interest Paid	(33,231)	(35,096)
Net Interest Paid	(30,075)	(31,966)

Notes to the Core Financial Statements

45. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2017/18 £000	2016/17 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(35,240)	(32,518)
Purchase of short and long term investments	(1,178,554)	(495,017)
Other payments for Investing Activities	(9,264)	(6,424)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	13,596	19,364
Proceeds from short-term and long-term investments	1,148,557	445,000
Other Receipts from Investing Activities	22,067	28,804
Net Cash Flows from Investing Activities	(38,838)	(40,791)

46. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2017/18 £000	2016/17 £000
Cash receipts of short and long term borrowing	28,580	918
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(7,707)	(7,706)
Repayment of Short-Term and Long-Term Borrowing	0	(1,263)
Other payments for financing activities	5,955	1,909
Net Cash Flows from Financing Activities	26,828	(6,142)

Housing Revenue Account

SECTION 4 - HOUSING REVENUE ACCOUNT

This account is maintained in accordance with the provisions of the Local Government and Housing Act 1989 to show all income and expenditure relating to the Council's responsibilities as landlord of dwellings and associated property.

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT	2017/18	2016/17	
	£000	£000	Note
INCOME			
Gross Rent - Dwellings	(70,320)	(71,539)	1
Gross Rent - Other Housing Properties	(3,409)	(3,088)	1
Charges for Services and Facilities	(11,133)	(11,355)	1
Housing Subsidy and Government Grants	(10,353)	(10,353)	2
Contribution towards Expenditure	(5,293)	(1,934)	4
Total Income	(100,508)	(98,269)	
EXPENDITURE			
Supervision and Management - General Expenses	35,583	33,863	5
Supervision and Management - Special Expenses	5,333	4,862	5
Repairs and Maintenance	39,196	31,866	6
Rent, Rates and Other Charges	663	544	8
Rent Rebate Subsidy Shortfall	18	0	3
Contribution to Doubtful Debts Provision	984	409	7
Depreciation - Dwellings	22,059	20,426	10
Depreciation - Other Housing Assets	761	725	10
Impairment of Non Current Assets	73	438	
Debt Management Expenses	24	26	
Total Expenditure	104,694	93,159	
Net Cost of Services included in the Council's Income and Expenditure Account	4,186	(5,110)	
HRA Services share of Corporate and Democratic Core Costs	173	134	
Net Cost of HRA Services	4,359	(4,976)	
HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement			
(Gain) / Loss on Sale of HRA Non Current Assets	(6,338)	(9,673)	
Interest Payable and Similar Charges	6,903	7,580	11
Interest and Investment Income	(638)	(649)	
Net Pension Interest Cost	361	1,611	12
(Surplus) / Deficit for the Year on HRA Services	4,647	(6,107)	

Housing Revenue Account

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2017/18 £000	2016/17 £000
Balance on the HRA at the End of the Previous Year	57,122	42,894
<u>Movement in Year</u>		
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	(4,647)	6,107
Adjustments between Accounting Basis and Funding Basis under Statute	16,782	11,398
Net Increase or (Decrease) before Transfers (To) / From Reserves	12,135	17,505
Transfers (To) / From Reserves	951	(3,277)
Increase or (Decrease) in Year on the HRA	13,086	14,228
Balance on the HRA at the End of the Year	70,208	57,122

An analysis of the amounts included within the figures for "Adjustments between Accounting Basis and Funding Basis under Statute" can be found within Note 8 to the Core Financial Statements.

Details of the movement in the Housing Revenue Account Reserves and Balances can be found in Note 15 to the Housing Revenue Account.

Housing Revenue Account

NOTES TO THE HOUSING REVENUE ACCOUNT**1. GROSS RENT OF DWELLINGS**

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2018, 0.32% of lettable property was empty (0.52% at 31 March 2017). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £96.69 in 2017/18 and £97.58 per week in 2016/17.

Service charges have been disaggregated from rents and are now shown under charges for services and facilities.

(a) Housing stock

The Council was responsible for managing 14,158 dwellings as at 31 March 2018 (14,256 as at 31 March 2017).

There have been no stock transfers undertaken in 2017/18.

The stock was made up as follows:

	31/03/18	31/03/17
<u>Stock Numbers at year end</u>		
Houses and Bungalows	2,377	2,424
Flats and Maisonettes	11,781	11,832
Stock at End of Year	14,158	14,256

	2017/18	2016/17
<u>Change in Stock Numbers during the year</u>		
Stock at 1 April	14,256	14,390
Less Sales, Demolitions, etc.	(147)	(155)
Add Re-purchases, Conversions etc.	49	21
Stock at End of Year	14,158	14,256

b) Rent Arrears

	2017/18 £000	2016/17 £000
Rent Arrears due from Current Tenants	3,408	3,129
Rent Arrears due from Former Tenants	1,549	2,178
Total Arrears	4,957	5,307
Total Arrears as % of Gross Rent of Dwellings Due	5.7%	6.1%

The arrears shown in this note exclude water charges, heating charges and all other charges collected as part of tenants' rent. Housing rent represents 91% of the total collectable from tenants.

Housing Revenue Account

c) Rent – Other Housing Property

	2017/18 £000	2016/17 £000
Aerial Sites	205	187
Garages	128	140
Reception Hostels	2,626	2,592
Commercial Property	393	116
Ground Rents	57	53
Total Other Rents and Charges	3,409	3,088

d) Charges for Services and Facilities to Tenants and Leaseholders.

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £8.27 in 2017/18 (£7.84 in 2016/17).

	2017/18 £000	2016/17 £000
Heating Charges	583	680
Leasehold Service Charges	4,549	4,879
Tenants Service Charges	6,001	5,796
Total Charges for Services and Facilities	11,133	11,355

2. GOVERNMENT HOUSING GRANTS AND SUBSIDY

From 1st April 2012 HRA accounts were prepared under the Government's HRA self-financing regime. Under this system no further housing subsidy transactions are made between government and stock owning Councils. This is in recognition that all rent collected will be retained by the Council and not contributed into the national rent pool.

As the Council has a housing PFI scheme, it will continue to receive the PFI credit until completion of the contract in 2027. This represents an annual payment of £10.353m.

	2017/18 £000	2016/17 £000
Charges for Capital	0	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	0
Total Grants and Subsidy	10,353	10,353

3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 50% of tenants received help in 2017/18 (53% in 2016/17). Rent rebates are chargeable to, and the corresponding subsidy is credited to the General Fund.

Subsidy on rent rebates is capped and if the Council's rent exceeds the Government's limit for subsidy, the cost is charged to the HRA. The shortfall on subsidy due to overpayments is charged to the General Fund, as are the administration costs.

Housing Revenue Account

The costs, income and rebates over limitation charged back to the HRA are shown below:

	2017/18 £000	2016/17 £000
Rent Rebates Given (GF)	42,774	42,774
Subsidy Received on Rebates (GF)	(42,774)	(42,774)
Net cost to the HRA	0	0

4. CONTRIBUTIONS TOWARDS EXPENDITURE

	2017/18 £000	2016/17 £000
Court Costs	95	76
Recharges of repairs	4,539	1,073
Recharge to Capital Receipts	455	606
Hostels: Heat, Light and Water Charges	102	92
Other miscellaneous income	102	87
Total Other Income	5,293	1,934

5. SUPERVISION AND MANAGEMENTGeneral expenses

This includes the provision of services to all tenants including rent collection and accounting, rent arrears recovery, tenancy application and lettings, finance and administration, policy and management functions.

Special expenses

This includes the provision of services applicable to particular tenants including central heating, metered energy supplies, maintenance of grounds, communal lighting, lifts and ancillary services.

6. REPAIRS AND MAINTENANCE

This includes day-to-day repairs to Council housing stock and cyclical external decoration. Void properties prior to re-letting and certain tenants' properties are eligible for internal decoration. Repairs & Maintenance expenditure was as follows:

	2017/18 £000	2016/17 £000
Revenue R&M works	15,425	13,992
R&M works charged to MRR	23,771	17,874
Total Repairs and Maintenance	39,196	31,866

Housing Revenue Account

7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

A contribution of £0.984m (2016/17 £0.409m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2017/18 £000	2016/17 £000
Housing Tenants	4,541	4,541
Leaseholders	1,507	1,507
Commercial Properties, Miscellaneous Debts	900	900
Total Impairment Allowance	6,948	6,948

8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current HRA self-financing system, which began on 1st April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31st March 2018 was £57.5m

9. NON CURRENT ASSETS VALUATION

A full valuation of the housing stock is commissioned every five years with a market adjustment being applied in the year's in-between. The difference between the value of dwellings in their existing use as social housing and the vacant possession value reflects the economic cost to the council of providing housing at less than open market rents.

	31/03/18 £000	31/03/17 £000
Operational Assets:		
Dwellings (Existing Use Value - Social Housing)	1,255,843	1,229,068
Other Land and Buildings	15,580	14,566
Infrastructure	105	102
Vehicles, Plant and Equipment	7,386	7,413
	1,278,914	1,251,149
Investment Properties	0	0
Surplus Assets	32,386	8,864
Total Housing Assets	1,311,300	1,260,013
Full Valuation of Council Dwellings	5,023,372	4,916,272

Housing Revenue Account

10. DEPRECIATION

The total charge for the depreciation of housing assets is as follows:

	2017/18 £000	2016/17 £000
Operational Assets		
Dwellings	22,059	20,427
Other Land and Buildings	253	243
Infrastructure	4	4
Vehicles, Plant and Equipment	504	477
Total Depreciation	22,820	21,151

11. INTEREST PAYABLE AND SIMILAR CHARGES

This line includes the charge of £4.7m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2017/18 (£3.1m in 2016/17). It also includes £0.122m for the net cost of amortised loan redemption premiums and discounts (£0.485m 2016/17).

12. PENSIONS COSTS – IAS 19

In accordance with IAS 19, Lewisham recognises the cost of retirement benefits in the net cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the cost to the HRA is based on the amounts payable in the year, so the accrued cost of retirement benefits is reversed out of the HRA.

13. HOUSING CAPITAL EXPENDITURE

Any expenditure on the Capital Programme which cannot be capitalised as a component or did not add value to an existing asset has been charged to revenue. These amounts have been mainly funded from the Major Repairs Reserve, which can be used for both revenue and capital expenditure.

	2017/18 £000	2016/17 £000
Expenditure:		
Dwellings	8,397	11,065
Revenue Expenditure Funded from Capital under Statute	0	0
	8,397	11,065
Financed by:		
Capital Receipts	7,912	10,220
Major Repairs Reserve	485	845
Total Capital Expenditure Financed	8,397	11,065

Housing Revenue Account

14. MAJOR REPAIRS RESERVE

The movements on the major repairs reserve are as follows:

	2017/18 £000	2016/17 £000
Balance brought forward at start of year	39,907	37,475
Transferred in (depreciation dwellings)	22,820	21,151
Financing of capital expenditure on housing assets	(485)	(845)
Financing Major Revenue Repairs	(23,771)	(17,874)
Contributions from Revenue (Capital)		
Balance carried forward at end of year	38,471	39,907

15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

The movements in housing revenue account reserves and balances are as follows:

	Balance at 31/03/17 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/18 £000
Property and Stock Related Reserves	4,687	195	0	4,882
Staff Related Reserves	750	0	0	750
Other Earmarked Reserves	51,686	12,890	0	64,576
Total Reserves and Balances	57,123	13,085	0	70,208

Collection Fund

SECTION 5 - THE COLLECTION FUND

Lewisham Council is a designated 'Billing' Authority and is required by statute to maintain a separate Collection Fund. The transactions are on an accruals basis and include income from Council Tax and Non-Domestic Rates (NDR) and distributions to the Council's General Fund and the Greater London Authority (GLA) in respect of both Council Tax & NDR, and to the Government in respect of NDR only.

The costs of collecting these taxes are charged to the General Fund, but an allowance towards the cost of collecting NDR is credited to the General Fund from the NDR receipts.

The Council's share of the year end balances of the Collection Fund is included in the Council's Balance Sheet and its share of the transactions is included in the Council's Cash Flow Statement.

COLLECTION FUND REVENUE ACCOUNT

	2017/18			2016/17			Note
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	
INCOME							
Income from Council Tax (net)	129,500		129,500	116,837		116,837	4
Income from Non-Domestic Rates (net) *		66,046	66,046		52,849	52,849	5
Income from Non-Domestic Rates (net) - BRS *		1,742	1,742		1,335	1,335	5
TOTAL INCOME	129,500	67,788	197,288	116,837	54,184	171,021	
EXPENDITURE							
Precepts and Demands upon Fund (C. Tax)							
- London Borough of Lewisham	93,874		93,874	86,590		86,590	
- Greater London Authority **	22,706		22,706	21,674		21,674	
Precepts and Demands upon Fund (NDR)							
- London Borough of Lewisham		20,285	20,285		15,515	15,515	
- Greater London Authority		25,667	25,667		10,426	10,426	
- Central Government		21,665	21,665		26,064	26,064	
- Cost of Collection Allowance		332	332		303	303	
Business Rate Supplement (BRS)							
- Paid to Greater London Authority		1,914	1,914		1,334	1,334	
- Administrative Costs		8	8		3	3	
Bad and Doubtful Debts							
- Net adj to Impairment Allowance	3,728		3,728	2,813		2,813	6a
- Net adj to Impairment Allowance		(517)	(517)		(811)	(811)	6b
- Amounts Written Off	816		816	101		101	
- Amounts Written Off		884	884		807	807	
Contributions from previous year							
- London Borough of Lewisham	3,853		3,853	2,938		2,938	
- Greater London Authority **	964		964	817		817	
Provision for Appeals							
- Net contribution		(1,058)	(1,058)		487	487	
TOTAL EXPENDITURE	125,941	69,180	195,121	114,933	54,128	169,061	
Deficit / (Surplus) for the year	(3,559)	1,392	(2,167)	(1,904)	(56)	(1,960)	3
Deficit / (Surplus) at start of year	(6,013)	5,820	(193)	(4,109)	5,876	1,767	3
Deficit / (Surplus) at end of year	(9,572)	7,212	(2,360)	(6,013)	5,820	(193)	

Collection Fund

NOTES TO THE COLLECTION FUND

1. THE COUNCIL TAX BASE AND THE "BAND D" EQUIVALENT

The annual budget process requires that each Council determines its own 'Band D' tax charge by dividing its own budget requirement by the respective tax base for the financial year. The 'Band D' tax calculated forms the basis of the charge for all properties. Properties fall into one of eight valuation bands based on market values at 1st April 1991. Those that fall in other valuation bands pay a proportion of the 'Band D' tax charge according to its banding and the band proportion.

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2017/18 assumed a collection rate of 96.0% (96.0% for 2016/17).

The table below sets out the original tax base calculation for 2017/18 and has been prepared in accordance with The Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 1st April 2013.

Council Tax Band	Property Value £000	2017/18		Band D Ratio	2017/18		2016/17	
		No. of Properties			Band D Equivalents as per Ratio No.	Council Tax Charge £	Band D Equivalents as per Ratio No.	Council Tax Charge £
		Actual	Adjusted					
		Number	Number					
(1)	(2)							
A	up to 40	7,726	4,245	6/9	2,830.2	£958.47	2,691.8	919.11
B	40 - 52	33,691	22,319	7/9	17,359.6	£1,118.21	16,616.3	1,072.29
C	52 - 68	43,868	32,780	8/9	29,138.1	£1,277.95	27,942.6	1,225.47
D	68 - 88	25,762	21,256	1	21,256.1	£1,437.70	20,872.8	1,378.66
E	88 - 120	7,413	6,453	11/9	7,887.1	£1,757.19	7,724.3	1,685.02
F	120 - 160	2,736	2,519	13/9	3,639.0	£2,076.68	3,623.0	1,991.40
G	160 - 320	1,292	1,222	15/9	2,036.7	£2,396.16	2,016.3	2,297.76
H	over 320	169	160	18/9	319.5	£2,875.41	313.5	2,757.32
Totals		122,657	90,955		84,466.3		81,800.6	
Add: Contributions in lieu					0.0		0.0	
Total Band D Equivalents					84,466.3		81,800.6	
Estimated Collection Rate					96.0%		96.0%	
NET COUNCIL TAX BASE					81,087.6		78,528.6	

(1) Total number of dwellings as per Valuation Officer's List

(2) Total number of dwellings after allowing for Discounts, Exemptions and Other Adjustments

2. COLLECTION FUND SURPLUS OR DEFICIT

Every January, a forecast of the estimated Collection Fund balance at the end of the financial year is made. This estimated surplus or deficit is then distributed to or recovered from the Council and the GLA in the following year in proportion to their respective annual demands made on the Fund. Any difference between the estimated and actual year-end balance on the Fund is taken into account as part of the forecast to be made of the Fund's balance during the following financial year.

Collection Fund

3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	(Surplus)/ Deficit		(Surplus)/ Deficit		
	Balance at 31/03/16 £000	Movement in 2016/17 £000	Balance at 31/03/17 £000	Movement in 2017/18 £000	Balance at 31/03/18 £000
Council Tax					
London Borough of Lewisham	(3,220)	(1,622)	(4,842)	(2,954)	(7,796)
Greater London Authority	(889)	(282)	(1,171)	(605)	(1,776)
	(4,109)	(1,904)	(6,013)	(3,559)	(9,572)
Non-Domestic Rates					
London Borough of Lewisham	1,764	(17)	1,747	418	2,165
Greater London Authority	1,175	(11)	1,164	278	1,442
Central Government	2,937	(28)	2,909	696	3,605
	5,876	(56)	5,820	1,392	7,212
Collection Fund Balances	1,767	(1,960)	(193)	(2,167)	(2,360)

Collection Fund Adjustment Account

The Council's share of the Collection Fund balance is managed by the Collection Fund Adjustment Account which shows the differences arising from the recognition of Council Tax income in the CIES as it falls due from Council Tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

4. COUNCIL TAX INCOME

	2017/18		2016/17
	£000	£000	£000
Gross Council Tax Income Due		164,523	156,659
Less: Adjustments to charge	2,276		2,250
Exemptions	(5,290)		(4,106)
Disabled Relief	(99)		(77)
Discounts	(15,011)		(15,462)
Adjustment for Council Tax Reduction Scheme	(16,898)		(22,427)
		(35,022)	(39,822)
Total Due from Council Tax payers		129,501	116,837

Collection Fund

5. NON-DOMESTIC RATES

The Council is responsible for collecting the Non-Domestic Rates (NDR) (often referred to as Business Rates) which are payable within its area. The amount payable is based upon the rateable value of commercial properties multiplied by the NDR multiplier, which is set annually by the Government. The amount due is paid as precepts to London Borough of Lewisham's General Fund (30%), Greater London Authority (20%) and Central Government (50%).

	2017/18		2016/17
	£000	£000	£000
Gross NDR Collectable (after voids and exemptions)		84,538	65,511
Reductions and Relief:			
Mandatory Relief	(15,044)		(10,942)
Discretionary Relief	(1,706)		(385)
		(16,750)	
Total Receivable from Business Rates		67,788	54,184

	2017/18	2016/17
	£m	£m
Non-Domestic Rateable Value	191.0	139.2

	2017/18	2016/17
	pence	pence
Non-Domestic Rate Multiplier	47.9	49.7
Non-Domestic Rate Multiplier (Small Business)	46.6	48.4

6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

a) Council Tax

	31/03/18	31/03/17
	£000	£000
Council Tax Arrears	40,203	36,008
Impairment Allowance	(37,157)	(33,430)
As a Percentage of Arrears	92.4%	92.8%

	2017/18		2016/17	
	Amount	Percentage	Amount	Percentage
	£000	%	£000	%
Age of Arrears				
Year of Accounts	8,018	20	6,229	17
Under 2 Years old	4,533	11	4,384	12
Under 3 Years old	3,855	10	3,708	10
Under 5 Years old	6,661	17	6,348	18
Over 5 Years old	17,136	43	15,339	43
Total	40,203	100	36,008	100

Collection Fund

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

b) Non-Domestic Rates

	31/03/2018 £000	31/03/17 £000
NDR Arrears	3,272	3,957
Impairment Allowance	(1,822)	(2,338)
As a Percentage of Arrears	55.7%	59.1%

	2017/18		2016/17	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Arrears				
Year of Accounts	1,250	38	1,458	37
Under 2 Years old	634	19	585	15
Under 3 Years old	312	10	316	8
Under 5 Years old	378	12	714	18
Over 5 Years old	698	21	884	22
Total	3,272	100	3,957	100

Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund.

Group Accounts

SECTION 6 – GROUP ACCOUNTS

In order to provide a full picture of the Council's economic activities and financial position, the accounting statements of the Council and its wholly owned local authority trading companies, Lewisham Homes Ltd and Catford Regeneration Partnership Ltd have been consolidated.

The group accounts are presented in addition to the Council's "single entity" financial statements and comprise:

- Group Comprehensive Income and Expenditure Statement
- Group Movement in Reserves Statement;
- Group Balance Sheet; and
- Group Cash flow Statement

These statements (the purposes of which are explained on pages 3 and 4), together with those explanatory notes that are considered necessary in addition to those accompanying the "single entity" accounts and accounting policies are set out in the following pages.

Group Accounts

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR YEAR ENDING 31ST MARCH 2018

2016/17			2017/18			
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s		Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s
SERVICE						
379,729	(305,440)	74,289	Children & Young People	251,594	(310,848)	(59,254)
174,877	(72,459)	102,418	Community Services	171,781	(92,334)	79,447
344,153	(287,254)	56,899	Customer Services	346,165	(289,579)	56,586
54,619	(30,733)	23,886	Resources & Regeneration	60,011	(47,598)	12,413
90,852	(98,510)	(7,658)	HRA	105,107	(100,748)	4,359
21,649	(41,967)	(20,318)	Corporate Services	7,305	(5,553)	1,752
1,065,879	(836,363)	229,516	Cost of Services	941,963	(846,660)	95,303
			Other Operating Expenditure			
0	(9,823)	(9,823)	(Gain) / Loss on the disposal of non-current assets	0	(8,182)	(8,182)
1,632	0	1,632	Levies	1,638	0	1,638
1,947	0	1,947	Contribution of housing capital receipts to Government Pool	1,927	0	1,927
3,579	(9,823)	(6,244)		3,565	(8,182)	(4,617)
			Financing and Investment Income and Expenditure			
34,552	0	34,552	Interest payable and similar charges	33,332	0	33,332
0	0	0	Loan Restructuring	23,314	0	23,314
443	(3,083)	(2,640)	Interest and Investment Income	837	(2,981)	(2,144)
57,359	(36,207)	21,152	Net interest on the net defined benefit liability	49,554	(32,512)	17,042
92,354	(39,290)	53,064		107,037	(35,493)	71,544
			Taxation and non-specific Grant Income			
0	(89,527)	(89,527)	Income from Council Tax	0	(97,726)	(97,726)
0	(59,608)	(59,608)	General Government Grants	0	(58,390)	(58,390)
0	(15,577)	(15,577)	Recognised Capital Grants and Contributions	0	(18,474)	(18,474)
0	(87,083)	(87,083)	Non-Domestic Rates income and expenditure	0	(92,188)	(92,188)
31	0	31	Corporation Tax Payable	56	0	56
31	(251,795)	(251,764)		56	(266,778)	(266,722)
		24,572	Deficit/(Surplus) on provision of services			(104,492)
		(101,871)	Surplus or deficit on revaluation of non-current assets			(154,020)
		19,316	Remeasurement of the net defined benefit liability			(38,950)
		(82,555)	Other Comprehensive Income and Expenditure			(192,970)
		(57,983)	Total Comprehensive Income and Expenditure			(297,462)

Group Accounts

GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2018

YEAR ENDING 31ST MARCH 2018	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017 Brought Forward	13,000	150,491	63,686	39,907	55,495	14,132	336,711	1,134,922	1,471,633
Movement in Reserves during 2017/18									
Surplus or (Deficit) on the provision of services	106,322	630	(2,229)	0	0	0	104,723	0	104,723
Other Comprehensive Income and Expenditure	0	(1,058)	(820)	0	0	0	(1,878)	193,922	192,044
Total Comprehensive Income and Expenditure	106,322	(428)	(3,049)	0	0	0	102,845	193,922	296,767
Adjustments between accounting basis and funding basis under regulations	(95,776)	696	18,553	(1,436)	(7,145)	3,167	(81,941)	82,636	695
Net Increase / Decrease before Transfers to Earmarked Reserves	10,546	268	15,504	(1,436)	(7,145)	3,167	20,904	276,558	297,462
Transfers to / from Earmarked Reserves	(10,546)	10,546	0	0	0	0	0	0	0
Increase / (Decrease) in 2017/18	0	10,814	15,504	(1,436)	(7,145)	3,167	20,904	276,558	297,462
Balance at 31 March 2018 Carried Forward	13,000	161,305	79,190	38,471	48,350	17,299	357,615	1,411,480	1,769,095

Group Accounts

GROUP MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2017

YEAR ENDING 31ST MARCH 2017	General Fund Balance £000	Earmarked Gen Fund Reserves £000	Housing Revenue Account £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2016 Brought Forward	13,000	153,084	47,222	37,475	57,231	8,149	316,161	1,097,489	1,413,650
Movement in Reserves during 2016/17									
Surplus or (Deficit) on the provision of services	(33,272)	233	8,421	0	0	0	(24,618)	0	(24,618)
Other Comprehensive Income and Expenditure	0	125	0	0	0	0	125	82,555	82,680
Total Comprehensive Income and Expenditure	(33,272)	358	8,421	0	0	0	(24,493)	82,555	58,062
Adjustments between accounting basis and funding basis under regulations	30,321	0	11,320	(845)	(1,736)	5,983	45,043	(45,122)	(79)
Net Increase / Decrease before Transfers to Earmarked Reserves	(2,951)	358	19,741	(845)	(1,736)	5,983	20,550	37,433	57,983
Transfers to / from Earmarked Reserves	2,951	(2,951)	(3,277)	3,277	0	0	0	0	0
Increase / (Decrease) in 2016/17	0	(2,593)	16,464	2,432	(1,736)	5,983	20,550	37,433	57,983
Balance at 31 March 2017 Carried Forward	13,000	150,491	63,686	39,907	55,495	14,132	336,711	1,134,922	1,471,633

Group Accounts

GROUP BALANCE SHEET AS AT 31ST MARCH 2018

31/03/2017 £000		31/03/2018 £000
	Property, Plant & Equipment	
1,229,068	Council dwellings	1,285,145
790,795	Other land and buildings	1,011,061
29,292	Vehicles, plant, furniture and equipment	26,787
114,893	Infrastructure	117,424
4,982	Community	4,975
76,893	Surplus Assets not held for Sale	94,623
26,494	Assets under Construction	26,726
2,272,417		2,566,741
257	Heritage Assets	257
14,872	Investment Property	14,672
2,049	Long term investments	2,076
6,377	Long term debtors	6,684
2,295,972	Total Long Term Assets	2,590,430
280,731	Short Term Investments	310,648
229	Inventories	189
48,162	Debtors	46,551
94,276	Cash and Cash Equivalents	107,606
3,637	Prepayments	3,941
427,035	Current Assets	468,935
3,717	Bank Overdraft	9,553
26,854	Short term borrowing	42,468
3,789	Provisions	3,796
79,600	Creditors	81,052
76,789	Receipts in advance	90,493
7,580	PFI Liabilities due within one year	7,945
198,329	Current Liabilities	235,307
2,524,678	Total Assets less Current Liabilities	2,824,058
166,126	Long term borrowing	179,453
4,843	Provisions	5,793
236,196	Deferred PFI Liabilities	228,124
1,616	Capital Grants Receipts in Advance	1,858
644,264	Liability related to defined benefit pension scheme	639,735
1,053,045	Long Term Liabilities	1,054,963
1,471,633	NET ASSETS	1,769,095
	Usable Reserves	
13,000	General Fund Balance	13,000
149,577	Earmarked Revenue Reserves	160,123
6,563	Lewisham Homes Reserves	8,981
914	Catford Regeneration Partnership Reserves	1,182
57,123	Housing Revenue Account	70,209
39,907	Major Repairs Reserve	38,471
55,495	Usable Capital Receipts Reserve	48,350
14,132	Capital Grants Unapplied	17,299
336,711		357,615
	Unusable Reserves	
891,997	Revaluation Reserve	1,026,385
895,587	Capital Adjustment Account	1,052,696
95	Deferred capital receipts	93
(3,841)	Financial Instruments Adjustment Account	(26,450)
(644,264)	Pensions Reserve	(639,735)
3,096	Collection Fund Adjustment Account	5,547
(7,748)	Short Term Compensated Absences Account	(7,056)
1,134,922		1,411,480
1,471,633	TOTAL RESERVES	1,769,095

Group Accounts

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2018

2016/17 £000s		2017/18 £000s
(24,226)	Net surplus or (deficit) on the provision of services	104,723
105,776	Adjustment to surplus or deficit on the provision of services for noncash movements	(48,914)
(42,699)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(33,185)
38,851	Net Cash flows from operating activities	22,624
(40,791)	Net Cash flows from Investing Activities	(54,033)
(6,142)	Net Cash flows from Financing Activities	38,903
(8,082)	Net increase or (decrease) in cash and cash equivalents	7,494
98,641	Cash and cash equivalents at the beginning of the reporting period	90,559
90,559	Cash and cash equivalents at the end of the reporting period	98,053

Group Accounts

Notes to the Group Accounts**1. General**

The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts on pages 3 to 88. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

2. Group Boundary

The Council has an interest in a number of entities, the most significant of which are the wholly owned subsidiaries Lewisham Homes Ltd and Catford Regeneration Partnership Ltd which are consolidated into these accounts. The table below provides information on the nature of company business and associated risks:

Company	Business	Risks
Lewisham Homes Ltd	An arms-length management organisation (ALMO) set up in 2007 as part of the Council's initiative to deliver better housing services and achieve the Decent Homes Standard. The company manages approximately 18,000 homes.	If Lewisham Homes was in any way unable to deliver a satisfactory housing management service, the Council would have to provide such a service itself
Catford Regeneration Partnership Ltd (CRPL)	The company owns the Catford Shopping Centre and aims to drive forward a regeneration programme for the town centre and the surrounding area.	As a property investment company, CRPL is exposed to risk in market movements in terms of the capital value of properties and in the level of income that can be generated through rental charges

3. Accounting Policies

In preparing the Group Accounts the Council has aligned the accounting policies of its companies with those of the Council and made consolidation adjustments where necessary. It has consolidated the companies' financial statements with those of the Council on a line by line basis and has eliminated in full balances, transactions, income and expenses between the Council and its subsidiaries.

4. Investment Properties

Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2018, under the code of practice they are classed as investment properties.

The fair value of the properties owned by CRPL as at 31 March 2018 was £14.672m.

5. Pensions

Lewisham Homes Ltd is a scheduled body in the London Borough of Lewisham Pension Fund. The Council has indemnified Lewisham Homes against any liability that may arise on its notional share of the Pension Fund's assets and obligations.

Glossary of Terms Used in the Accounts

SECTION 7 - GLOSSARY OF TERMS USED IN THE ACCOUNTS

ACCRUALS	These are amounts included in the accounts to cover income and expenditure attributable to the financial year, but for which payment had not been received or made as at 31 March.
ACTUARY	An independent professional who advises on the financial position of the Pension Fund and carries out a full valuation every three years.
CAPITAL EXPENDITURE	This is expenditure on the acquisition or enhancement of assets which significantly prolongs their useful lives or increases their market value. This is considered to be of benefit to the Council over a period of more than one year, e.g. land and buildings.
CAPITAL ADJUSTMENT ACCOUNT	This represents the capital resources which have been set aside to meet past capital expenditure.
CAPITAL RECEIPTS	Income received from the sale of land, buildings and plant.
COLLECTION FUND	A separate statutory account into which Council Tax and Non-Domestic Rates (NDR) are paid in order to account for payments due to the Council's General Fund and Preceptors (currently the Greater London Authority for Council Tax and NDR, and Central Government for NDR).
CONTINGENT LIABILITY	A possible liability to incur future expenditure at the balance sheet date dependent upon the outcome of uncertain events.
CREDITORS	This is an amount of money owed by the Council for goods, works or services received.
DEBTORS	This is an amount of money owed to the Council by individuals and organisations.
DEPRECIATION	This is the loss in value of an asset due to age, wear and tear, deterioration or obsolescence. An annual charge in respect of this is made to service revenue accounts over the life of most assets to reflect the usage in the year.
EARMARKED RESERVES	These are amounts set aside for specific purposes to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.
FAIR VALUE	This is defined as the amount for which an asset could be exchanged or liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price.
GENERAL FUND	This is the account which comprises the revenue costs of providing services, which are met by General Government Grants and the Council's demand on the Collection Fund.
INFRASTRUCTURE	These are non-current assets which do not have a market value and primarily exist to facilitate transportation and communication (e.g. roads, street lighting). They are usually valued at historic cost.

Glossary of Terms Used in the Accounts

LEASES	<p>A Lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. The definition of a lease includes hire purchase contracts. Lease classification is made at the inception of the lease.</p> <p>A Finance lease is a lease that transfers substantially all the risk and rewards incidental to ownership of an asset. Title may or may not eventually be transferred. An Operating lease is a lease other than a finance lease.</p>
MEMORANDUM ACCOUNT	<p>These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.</p>
MINIMUM REVENUE PROVISION (MRP)	<p>The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.</p>
NON-DOMESTIC RATES (NDR)	<p>Also known as Business Rates, these are set by the Government and collected by the Council. The income due is paid as precepts to the Council's General Fund, the Greater London Authority and Central Government.</p>
PRIVATE FINANCE INITIATIVE (PFI)	<p>This is a scheme whereby contracts for specified services are let to private sector suppliers by the Council which may include capital investment as well as the provision of the service. Payments are made to the supplier in return, which are reduced if performance targets are not met.</p>
PRECEPTS	<p>These are demands made upon the Collection Fund by the Council's General Fund and the Greater London Authority in accordance with their budget requirements. A share of the NDR precept is also paid to Central Government.</p>
PROVISIONS	<p>This is an amount which is set-aside for a specific liability or loss, which is likely to be incurred, but where the exact amount and date on which they will arise is uncertain.</p>
REVALUATION RESERVE	<p>This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.</p>
REVENUE SUPPORT GRANT (RSG)	<p>This is the main general grant which is paid to the Council by Central Government to fund local services.</p>
REVENUE EXPENDITURE	<p>Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.</p>
SPECIAL PURPOSE VEHICLE	<p>This is a legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives.</p>
SUPPORT SERVICES	<p>These are activities of a professional, technical and administrative nature which are not Council services in their own right, but support main front-line services.</p>

Glossary of Terms Used in the Accounts

COMMON ACRONYMS USED IN THE ACCOUNTS

CIES	Comprehensive Income and Expenditure Statement
CIPFA	Chartered Institute of Public Finance and Accountancy
COP	Code of Practice on Local Authority Accounts in the United Kingdom
DSG	Dedicated Schools Grant
DfE	Department for Education
HRA	Housing Revenue Account
IAS	International Accounting Standards
IFRS	International Financial Reporting Standards
LEP	Local Education Partnership
LGPS	Local Government Pension Scheme
LPFA	London Pensions Fund Authority
LSP	Local Strategic Partnership
MiRS	Movement in Reserves Statement
MRP	Minimum Revenue Provision
NDR	Non-Domestic Rates
PFI	Private Finance Initiative
RICS	Royal Institution of Chartered Surveyors
SeRCOP	Service Reporting Code of Practice
SPV	Special Purpose Vehicle
SSAP	Statement of Standard Accounting Practice
TfL	Transport for London
TPS	Teachers' Pensions Scheme
VAT	Value Added Tax

PENSION FUND

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2017/18.

The Pension Fund's value increased over the year by £29m (2.3%), a year which saw the Fund initiate a rebalancing exercise by selling a proportion of its equity holdings to reinvest in alternative asset classes, being diversified growth and multi-asset credit, in line with the Fund's agreed Investment and Funding Strategies following the triennial valuation of 2016.

INTRODUCTION

The London Borough of Lewisham Pension Fund ('the Fund') is part of the Local Government Pension Scheme. The Fund is a contributory defined benefit pension scheme administered by the London Borough of Lewisham to provide benefits to London Borough of Lewisham employees and former employees and admitted and scheduled bodies. These benefits include retirement allowances and pensions payable to former employees and their dependants, lump sum death gratuities and special short-term pensions. The Fund is financed by income from investments and contributions from employees, the Council and other admitted and scheduled bodies.

ORGANISATION

The fund is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended);
- The Local Government Pension Scheme (Transition Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

Formal responsibility for investment management of the Pension Fund is delegated to the Council's Pensions Investment Committee (PIC), which appoints and monitors external investment managers. Each investment manager has an individual performance target and benchmark tailored to balance the risk and return appropriate to the element of the Fund they manage. The investment managers also have to consider the PIC's views on socially responsible investments. Details of the Socially Responsible Investment policy are contained in the Investment Strategy Statement (see web address below).

The Pension Board operates independently of PIC and assists the administering authority in securing compliance with the Regulations and any other legislation relating to the governance and administration of the Scheme. Further information about the Board, together with its Terms of Reference, can be found at the website further below.

The Pension Fund administration is managed by a small in-house team, which is also responsible for other areas of work such as redundancy payments, gratuities and teachers compensation.

A statement of the Fund's corporate governance, funding strategy and investment strategy can be found on the authority's pension's website, at the following address:

www.lewishampensions.org

PENSION FUND

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of the obligations to pay pensions and benefits which fall due after the end of the financial year. In respect of future obligations, the actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis.

The Local Government Pension Scheme (Administration) Regulations 2013 requires administering authorities in England and Wales to prepare a Pension Fund Annual Report which must include the Fund Account and a Net Assets Statement with supporting notes prepared in accordance with proper practices. The Regulations summarise the Pension Code and the minimum disclosure requirements.

The date for publishing the Pension Fund Annual Report is on or before 1 December following the end of the financial year. The Council will be taking its Annual Report to its Pensions Investment Committee later in the year to comply with this deadline.

A summary of the significant accounting policies and the basis of preparation of the accounts are shown below:

- (a) Fund Assets at 31 March 2018 – the below table outlines the fund managers, asset classes, and values of those assets held by the fund as at 31 March 2018:

Fund Manager	Asset	Asset Value 31 March 2018 £000	Proportion of the Fund 31 March 2018 %	Asset Value 31 March 2017 £000
Blackrock	Passive Equity and Bonds	484,194	37.2	549,121
UBS	Passive Equity and Bonds	478,595	36.7	544,085
Schroders Property	Property	111,446	8.5	100,946
Invesco	Diversified Growth/Targeted Returns	77,240	5.9	0
Pemberton	Multi-Asset Credit	27,717	2.1	0
HarbourVest	Private Equity	51,036	3.9	49,481
M&G	Credit	8,927	0.7	8,822
Securities Lending	Securities Lending	122	0.0	119
Unallocated Funds	Cash	64,809	5.0	18,662
Lewisham	Cash and Net Current Liabilities	(560)	0.0	3,333
Total Fund Assets		1,303,526	100.0	1,274,569

- (b) Basis of Preparation - The accounts have been prepared on an accruals basis (i.e. income and expenditure attributable to the financial year have been included) even where payment has not actually been made or received, except Transfer Values which are prepared on a cash basis. The financial statements do not take account of liabilities to pay pensions and other benefits due after the period end; these are reported upon separately in the Actuary's report and reflected in the Council's income and expenditure account. The accounts are prepared on a going concern basis for accounting purposes.
- (c) Investments - Investments in the Net Assets Statement are shown at Fair Value, the basis of measurement being market value based on bid prices, as required by IAS 26 Retirement Benefit Plans outlined in the 2017/18 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.

PENSION FUND

- (d) The change in market value of investments during the year comprises all increases and decreases in market value of investments held at any time during the year, including profits and losses realised on the sale of investments during the year.
- (e) Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors.
- (f) Private equity investments are valued in accordance with United States generally accepted accounting principles, including FAS 157, which is consistent with the International Private Equity and Venture Capital Valuation Guidelines. These guidelines set out that all investments are carried at fair value and they recommend methodologies for measurement. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (g) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schroders, to invest in pooled property/unit trust funds. The Schroders funds are all currently valued at least quarterly. The majority of property assets to which the fund has exposure are located in the UK. They are valued in accordance with the Royal Institution of Chartered Surveyors' Valuation Standards at Fair Value based on their Open Market Value (OMV).

The only non-UK fund is the Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the property funds are independently valued on a rolling basis at least annually.

- (h) Financing Fund - The fair value of the M&G fund is based on different pricing policies depending on the instrument being valued. The fund is close to maturity with debt instruments being repaid; at this stage of its life fund valuations are based on the manager's own internal valuation model which makes use of discounted cash flows. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31 March 2018 is the actual fair value using the latest available valuation on or after 31 December 2017, plus an estimated valuation for the period up to 31 March 2018.
- (i) Diversified Growth/Targeted Returns Fund – The pension fund is allocated notional units in the Invesco fund based on its overall contribution. Units will be valued on every business day in which units are created and realised. The value given to the fund's assets will be the recognised market quotation; if this is not available, the latest independent valuation will be used. Where no independent valuation can be used, the value will be determined by the manager in such manner as it deems appropriate.
- (j) Multi-Asset Credit Fund – the Pemberton private debt fund is valued at Fair Value using external benchmarks such as the equity values of comparable companies to borrowers, Credit Default Swap or commodity price movements and macro-economic data.
- (k) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2017 the employee contribution bands (revised annually in line with inflation) are as follows:

Full Time Pay for the Post	Contribution Rate 2017/18
Up to £13,700	5.5%
£13,701 to £21,400	5.8%
£21,401 to £34,700	6.5%
£34,701 to £43,900	6.8%
£43,901 to £61,300	8.5%
£61,301 to £86,800	9.9%
£86,801 to £102,200	10.5%
£102,201 to £153,300	11.4%
More than £153,301	12.5%

PENSION FUND

The employer's contribution is reviewed every three years and is determined by the fund's Actuary as the rate necessary to ensure that the Fund is able to meet its long-term liabilities. This is assessed at each triennial actuarial revaluation. The employer's contribution rate for 2017/18 is 22.5% and for 2018/19 it will remain unchanged.

- (l) Benefits – Benefits payable are made up of pension payments and lump sums payable to members of the Fund upon retirement and death. These have been brought into the accounts on the basis of all valid claims approved during the year.
- (m) Transfer Values – Transfer values are those sums paid to, or received from, other pension schemes relating to periods of previous pensionable employment. Transfer values are calculated in accordance with the Local Government Pension Scheme Regulations and have been brought into the accounts on a cash basis.
- (n) Taxation – The fund is a registered public service scheme under section (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.
- (o) VAT – By virtue of Lewisham Council being the administrating authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (p) Actuarial – The adequacy of the Fund's investments and contributions in relation to its overall and future obligations is reviewed every three years by an Actuary appointed by the Council. The Council's Actuary, Hymans Robertson, assesses the Fund's assets and liabilities in accordance with Regulation 77 of the Local Government Scheme Regulations 1997. The contribution rate required for benefits accruing in future is assessed by considering the benefits which accrue over the course of the three years to the next valuation.

The most recent triennial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2016.

Some of the triennial valuation financial assumptions made, with comparison to the previous valuation, are presented in the table below:

Financial Assumption	March 2016 (%)	March 2013 (%)
Discount Rate	4.0	4.6
Price Inflation (CPI*)	2.1	2.5
Pay Increases	2.9	4.3
Pension Increase:		
Pension in excess of GMP**	2.1	2.5
Post - 88 GMP	2.1	2.5
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.1	2.5
Expenses	0.6	0.7

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2016, the actuarial review carried out for 31 March 2013 resulted in increases to the Council's contribution rate up to 22.5%.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,041 million, were sufficient to meet 78% (71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

- (q) Actuarial Present Value of Promised Retirement Benefits – The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 19 basis) to be £1,934 million as at 31 March 2018 (£1,847 million as at 31 March 2017).

PENSION FUND

- (r) Investment Management and Administration - paragraph 42 of the Local Government Pension Scheme (Administration) Regulations 2008, permit the Council to charge the scheme's administration costs to the Fund. A proportion of relevant Council officers' salaries, including related on-costs, have been charged to the Fund on the basis of actual time spent on scheme administration and investment-related business. The fees of the Fund's general investment managers are charged on a quarterly basis and are generally calculated as a set percentage of the market value funds under management as at the end of those quarters. Some managers invoice fees, others deduct fees from asset holdings; in the latter instance, the fees are added back to the accounts to accurately reflect the management expense.
- (s) Foreign currency transactions are made using the WM/Reuters exchange rate in the following circumstances:
- Purchase and sales: the foreign exchange rate applicable on the day prior to the trade date is used.
 - Stock holdings: all holdings valuations are made using the WM/Reuters close of previous business day.
 - Dividend receipts: the rate applicable on the day prior to the date the dividend received is used.
- (t) Commitments - Where capital committed to investments is not fully drawn down at the end of the financial year the outstanding commitment is not included in the net asset statement but is referred to in the notes to the accounts; please see note 11.
- (u) Financial Instruments –
- (i) Financial Liabilities are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost.
- (ii) Financial Assets are recognised on the Net Asset Statement when the Fund becomes a party to the contractual provisions of a financial instrument. Financial Assets are classified into two types:
- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; and
 - Fair value through profit or loss – assets that are held for trading.
- (v) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:
- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund's qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
 - Private Equity valuations – the value of the Fund's private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31 December audited accounts valuation adjusted for estimated distributions and capital calls up to 31 March. Other mandates such as the diversified growth and multi-asset credit funds also adopt their own valuation policies when other quoted or comparable inputs are unavailable..
- (w) Additional Voluntary Contributions ("AVCs")

Members of the Fund are able to make AVCs in addition to their normal contributions. The related assets are invested separately from the main fund, and In accordance with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, are not accounted for within the financial statements. If on retirement members opt to enhance their Scheme benefits using their AVC funds, the amounts returned to the Scheme by the AVC providers are disclosed as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

PENSION FUND

FUND ACCOUNT FOR THE YEAR ENDED 31 MARCH 2018

The fund account shows the surplus or deficit on the fund for the year.

	2017/18 £000	2016/17 £000	See note
<u>DEALINGS WITH MEMBERS, EMPLOYERS AND OTHERS DIRECTLY INVOLVED WITH THE SCHEME</u>			
Contributions Receivable:			
- from Employers	(30,417)	(33,411)	1
- from Employees	(9,211)	(9,099)	1
- Reimbursement for Early Retirement	(609)	(955)	
Transfer Values In	(6,136)	(2,123)	
Other Income	(30)	(72)	
Sub-Total: Income	(46,403)	(45,660)	
Benefits Payable:			
- Pensions	40,420	39,096	2
- Lump Sums: Retirement allowances	6,779	8,611	2
- Lump Sums: Death grants	1,039	1,720	2
Payments to and on account of leavers:			
- Refunds of Contributions	140	86	
- Transfer Values Out	4,438	4,331	
Sub-Total: Expenses	52,816	53,844	
Sub-Total: Net (Additions)/ Withdrawals from dealings with members	6,413	8,184	
Management Expenses	1,929	2,143	3
Sub-Total: Net (Additions)/ Withdrawals including fund management expenses	8,342	10,327	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	(6,594)	(6,670)	4
Change in market value of investments (Realised & Unrealised)	(30,897)	(236,975)	5a
Taxes on Income	192	178	
Total Net Returns on Investments	(37,299)	(243,467)	
NET (INCREASE) / DECREASE IN THE FUND DURING YEAR	(28,957)	(233,140)	
OPENING NET ASSETS OF THE FUND	(1,274,569)	(1,041,429)	
CLOSING NET ASSETS OF THE FUND	(1,303,526)	(1,274,569)	

PENSION FUND

NET ASSETS STATEMENT AS AT 31 MARCH 2018

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2018.

	31/03/18 £000	31/03/17 £000	See note
INVESTMENT ASSETS			
Equities			
United Kingdom	11,487	11,777	5
Global	0	13,805	5
	11,487	25,582	
Managed Funds			
Property	108,401	98,174	5
Equities	710,103	830,606	5
Fixed Interest	210,101	206,232	5
Index Linked	42,600	41,599	5
Other Assets	135,223	32,862	5
	1,206,428	1,209,473	
Cash Held with Custodian	86,154	36,517	9
Derivative Contracts			
Assets	1,069	800	7
Liabilities	(1,069)	(800)	7
Other Investment Balances			
Debtors - Investment Transactions	3,101	3,118	8
Creditors - Investment Transactions	(3,085)	(3,453)	8
TOTAL INVESTMENTS	1,304,085	1,271,237	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	287	701	8
Creditors	(1,689)	(475)	8
Cash in Hand	843	3,107	9
TOTAL NET ASSETS	1,303,526	1,274,570	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2018. This liability is included within the Authority's balance sheet.

The value for derivative contracts in 2016/17 has been restated but does not impact the total net assets value for 2016/17. It was previously shown as £0 for both assets and liabilities.

PENSION FUND

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVED

	2017/18 £000	2016/17 £000
Employer Contributions		
Administering Authority	(24,771)	(27,346)
Scheduled Bodies	(4,913)	(5,209)
Admitted Bodies	(733)	(856)
	(30,417)	(33,411)
Employee Contributions		
Administering Authority	(7,281)	(7,265)
Scheduled Bodies	(1,687)	(1,607)
Admitted Bodies	(243)	(227)
	(9,211)	(9,099)

2. BENEFITS PAID

<u>By Category</u>	2017/18 £000	2016/17 £000
Pensions	40,420	39,096
Commutation and Lump Sum Retirement Benefits	6,779	8,611
Lump Sum Death Grants	1,039	1,720
	48,238	49,427

<u>By Authority</u>	2017/18 £000	2016/17 £000
Administering Authority	44,572	45,788
Scheduled Bodies	2,748	2,912
Admitted Bodies	918	727
	48,238	49,427

3. MANAGEMENT EXPENSES

	2017/18 £000	2016/17 £000
Administration Expenses	696	705
Oversight and Governance Expenses	257	433
<u>Investment Management Expenses:</u>		
- Transaction Costs	12	0
- Management Fees	917	978
- Performance Fees	0	0
- Custody Fees	47	27
	1,929	2,143

The reduction in Oversight and Governance expenses in 2017/18 is in part due to the mis-categorisation of Management Fees to Oversight and Governance expenses in 2016/17 of approximately £90k. Actuarial and advisory fees were also approximately £41k higher in 2016/17 due to the triennial valuation.

PENSION FUND

4. INVESTMENT INCOME

	2017/18 £000	2016/17 £000
Cash	(90)	(100)
Equities	(216)	(467)
Fixed Interest	(430)	(955)
Index Linked	(88)	(208)
Managed Funds (incl Property)	(5,416)	(4,561)
Securities Lending	(5)	(11)
Other	(349)	(368)
	(6,594)	(6,670)

5 INVESTMENT ANALYSIS

Individual Investment assets with a market value exceeding 5% of the total fund value are:

Asset	Manager	31 March 2018	
		£000	%
UBS Asset Management Life World Equity Tracker	UBS	221,735	17.0
Aquila Life US Equity Index Fund	Blackrock	145,507	11.2
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	90,457	6.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	89,239	6.8

PENSION FUND

Investments exceeding 5% within each class of security are as follows:

UK Equities			
Harbourvest GE PE Shares	Harbourvest	11,530	100.0
Property			
Schroder Unit TST UK Real Estate	Schroders	15,677	14.4
Legal and General Managed Property Fund	Schroders	14,071	12.9
Hermes Property Unit	Schroders	10,658	9.8
Blackrock UK FD	Schroders	10,012	9.2
Real Income Fund	Schroders	9,720	8.9
Metro Ppty Unit Trust	Schroders	9,221	8.5
Mayfair Cap Ppty (MCPUT)	Schroders	8,725	8.0
Multi-Let INDL Property Unit Trust	Schroders	6,887	6.3
IPIF Feeder Unit Trust Fund	Schroders	6,372	5.9
Standard Life Pooled Property Fund	Schroders	6,240	5.7
Metro Ppty Unit Trust	Schroders		
Managed Equities			
UBS Asset Management Life World Equity Tracker	UBS	221,735	31.6
Aquila Life US Equity Index Fund	Blackrock	145,507	20.8
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	90,457	12.9
UBS Asset Management Life UK Equity Tracker A Nav	UBS	89,239	12.7
Aquila Life European Equity Index Fund	Blackrock	41,227	5.9
BlackRock AM (IE) ISHS Emerging Markets Index	Blackrock	35,961	5.1
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	43,384	20.6
Blackrock AM (IE) UK Credit	Blackrock	42,005	19.9
UBS Asset Mgmt STG Corp	UBS	42,090	20.0
Aquila Life Over 5 yrs Index Fund	Blackrock	40,223	19.1
UBS GBL Asset Life UK Over 15 Year Gilt	UBS	43,123	20.5
Index Linked			
UBS Asset Mgmt Life Over 5 Year Index Linked Gilt Tracker	UBS	42,808	100.0
Alternatives			
Invesco Fund Managers Perpetual Targeted Returns	Invesco	77,240	57.1
Pemberton Euro Debt Investments Jersey II	Pemberton	27,717	20.5
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	11,309	8.4

PENSION FUND

An analysis of investment movements is set out below:

5. INVESTMENT ANALYSIS

INVESTMENT MOVEMENTS 2017/18	Value at 31 March 2017 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2018 £000
UK Equities	11,777	0	0	0	(290)	11,487
Global Equities	13,805	4	(13,411)	8	(406)	0
Managed Equities	830,606	243,467	(385,544)	0	21,574	710,103
Property	98,174	9,723	(5,488)	(8)	6,000	108,401
Fixed Interest Securities	206,232	6,451	(4,409)	279	1,548	210,101
Index Linked Securities	41,599	1,600	(910)	73	238	42,600
Other Assets*	32,862	111,208	(11,362)	(74)	2,589	135,223
Derivatives	0	0	0	0	0	0
	1,235,055	372,453	(421,124)	278	31,253	1,217,915
Cash Deposits	36,517				(365)	86,154
Other Investment Balances	(336)				9	16
Total Investments	1,271,236				30,897	1,304,085

* Includes Venture Capital, Multi-Asset Credit, Private Equity and Diversified Growth funds.

The Pension Fund's fixed interest and index linked bond investments are held with UBS and Blackrock in the form of pooled funds. The asset denoted 'Index Linked Securities' above is comprised wholly of UK Government index linked gilts. The 'Fixed Interest Securities' comprise various government and corporate bonds.

Apart from global equities, overseas managed equities and bonds, the other overseas investments held by the Fund fall under the 'Other Assets' category comprising of private equity with a value of £29.4m and multi-asset credit/private debt, with a value of £27.7m

The total value of unquoted securities held by the fund as at 31 March 2018 was £884m, this includes equities, bonds, private equity, diversified growth and multi-asset credit funds.

The total value of quoted securities held by the fund as at 31 March 2018 was £217m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds unitised/unit-linked insurance policies valued at £877m and unit trusts valued at £187m, of which £109m relates to pooled property investments. The Fund also holds assets with value £28m as a Limited Partner in a compartment of a common limited partnership.

PENSION FUND

As at 31 March 2017:

INVESTMENT MOVEMENTS 2016/17	Value at 31 March 2016 £000	Purchases at Cost £000	Sales Proceeds £000	Change in Capital Value £000	Change in Market Value £000	Value at 31 March 2017 £000
UK Equities	8,735	0	0	0	3,042	11,777
Global Equities	10,714	2	0	(57)	3,146	13,805
Managed Equities	656,010	11,567	(33,820)	0	196,849	830,606
Property	96,263	11,400	(9,371)	(83)	(35)	98,174
Fixed Interest Securities	162,329	26,746	(2,985)	0	20,142	206,232
Index Linked Securities	33,177	3,716	(2,341)	0	7,047	41,599
Other *	33,077	5,278	(11,266)	(27)	5,800	32,862
Derivatives	0	0	0	0	0	0
	1,000,305	58,709	(59,783)	(167)	235,991	1,235,055
Cash Deposits	40,667				984	36,517
Other Investment Balances	389					(336)
Total Investments	1,041,361				236,975	1,271,236

* Includes Venture Capital, Credit Mandates and Private Equity.

5A. FINANCIAL INSTRUMENTS

The accounting policies describe how the different asset classes of financial instruments are measured, and how income and expenses are recognised. The following table analyses the carrying amounts of financial assets and liabilities by category. No financial assets were reclassified during the accounting period. All assets are held at fair value, therefore there is no difference between fair value and carrying value.

PENSION FUND

	31-Mar-18			31-Mar-17		
	Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost	Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
	£000	£000	£000	£000	£000	£000
Financial Assets						
Equities	11,487			25,582		
Managed Funds:						
Property	108,401			98,174		
Managed Equity	710,103			830,606		
Fixed Interest	210,101			206,232		
Index Linked	42,600			41,599		
Other Alternative Assets	135,223			32,862		
Derivative contracts	1,069					
Cash deposits		86,154			36,517	
Pending Trades		361			2,700	
Dividends & Income		2,740			418	
Contributions Due		189			645	
Cash Balances		843			3,107	
Other Current Assets		98			57	
Total Financial Assets	1,218,984	90,385	0	1,235,055	43,444	0
Financial Liabilities						
Derivative Contracts			(1,069)			
Pending Trades			(3,085)			(3,453)
Unpaid benefits						
Other Current Liabilities			(1,689)			(475)
Total Financial Liabilities	0	0	(5,843)	0	0	(3,928)
Net Financial Assets	1,218,984	90,385	(5,843)	1,235,055	43,444	(3,928)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

	31/03/18 £000	31/03/17 £000
Financial Assets		
Fair Value through Profit and Loss	30,897	236,975
Loans and Receivables	0	0
Financial Liabilities		
Fair Value through Profit and Loss	0	0
	30,897	236,975

Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into three levels, according to the quality and reliability of information used to determine fair values.

PENSION FUND

Level 1 - consists of assets where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities (e.g. quoted equities, quoted fixed securities, quoted index linked securities and unit trusts).

Level 2 - consists of assets where quoted market prices are not available (e.g. where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value).

Level 3 - consists of assets where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Values as at 31 March 2018

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/18 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	11,487	1,176,161	30,267	1,217,915
Loans and Receivables	90,384	0	0	90,384
	101,872	1,176,161	30,267	1,308,300
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(4,774)	0	0	(4,774)
	(4,774)	0	0	(4,774)
Net Financial Assets	97,098	1,176,161	30,267	1,303,526

Values as at 31st March 2017

	Quoted Market Price Level 1 £000	Using Observable Inputs Level 2 £000	With Significant Unobservable Inputs Level 3 £000	Total at 31/03/17 £000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	25,582	1,176,611	32,862	1,235,055
Loans and Receivables	43,443	0	0	43,443
	69,025	1,176,611	32,862	1,278,498
Financial Liabilities				
Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(3,929)	0	0	(3,929)
	(3,929)	0	0	(3,929)
Net Financial Assets	65,096	1,176,611	32,862	1,274,569

PENSION FUND

5B. FINANCIAL RISK MANAGEMENT

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). As an investment fund, the Lewisham Pension Fund's objective is to generate positive investment returns for an accepted level of risk. Therefore the Fund holds a mix of financial instruments such as securities (equities, bonds), collective investment schemes (pooled funds), and cash equivalents. In addition, debtors and creditors arise as a result of its operations. The value of these financial instruments is reflected in the financial statements at their fair value.

Responsibility for the Fund's risk management strategy rests with the Council's Pension Investment Committee (PIC). Risk management policies are established to identify and analyse the risks faced by the Council's pension operations. The main risks from the Fund's holding of financial instruments are market risk, credit risk, and liquidity risk. These policies are reviewed regularly to reflect change in activity and in market conditions.

The Committee regularly monitors each investment manager, and its investment consultant (Hymans Robertson) advises on the nature of the investments made and associated risks.

The Fund's investments are managed on behalf of the Fund by the appointed investment managers. Each investment manager is required to invest the assets managed by them in accordance with the terms of their investment guidelines or pooled fund prospectus.

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. In 2017/18 the Fund reduced its equity exposure by approximately 12% of the Fund's total value, committing the sales proceeds to new mandates in diversified growth and multi-asset credit, in line with the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

The Fund's custodian is Northern Trust, who manage investments and report on them on behalf of the Fund. As the Fund adopts a long term investment strategy, the high level strategic risks described below will not alter significantly during any one year unless there are significant strategic or tactical changes made to the portfolio.

i) Market Risk

Market risk represents the risk that fair value of a financial instrument will fluctuate because of changes in market prices, interest rates or currencies. The Fund is exposed, through its investments in equities, bonds and investment funds, to all these market risks. The aim of the investment strategy is to manage and control exposure to market risk within acceptable parameters while optimising the return from the investment portfolio. In general, market risk is managed through the diversification of the investments held by asset class, investment mandate guidelines and investment managers. The risk arising from exposure to specific markets is limited by the strategic asset allocation, which is regularly monitored by the PIC.

a) Other Price Risk – Market

The risk that the value of a financial instrument will fluctuate as a result of factors other than interest rate or foreign currency movements, whether those changes are caused by factors specific to the individual instrument, its issuer or factors affecting the market in general. Market price risk arises from uncertainty about the future value of the financial instruments that the Fund holds. All investments present a risk of loss of capital, the maximum risk being determined by the fair value of the financial instruments. The investment managers mitigate this risk through diversification in line with their own investment strategies and mandate guidelines.

b) Other Price Risk – Sensitivity analysis

The Council and its investment advisors also undertake appropriate monitoring of market conditions and benchmark analysis. The Fund has a long term view on expected investment returns which smoothes out short term price volatility.

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2017/18 reporting period.

PENSION FUND

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	9.6
Global Equities	10.1
Bonds and Index Linked	9.3
Alternatives	4.6
Property	2.9
Cash	0.8

The potential volatilities are broadly consistent with a one standard deviation movement in the change in value of the assets over the latest three years. This can then be applied to the period end asset mix as follows:

Asset Type	Final Market Value as at 31 March 2018 £000	Percentage Change	Value on Increase £000	Value on Decrease £000
UK Equities	408,655	9.6	447,753	369,557
Global Equities	312,935	10.1	344,577	281,293
Bonds and Index Linked	252,700	9.3	276,156	229,244
Other Assets	135,223	4.6	141,396	129,050
Property	108,401	2.9	111,498	105,304
Cash	86,154	0.8	86,875	85,433
Total Assets*	1,304,068	**7.0	**1,395,092	**1,213,044

* This figure excludes derivatives and other investment balances.

** The % change and value change for Total Assets includes the impact of correlation across asset classes

c) Interest Rate Risk is the risk the Pension Fund is exposed to changes in interest rates and relates to its holdings in bonds and cash. The risk is mitigated by the Fund holding minimum cash balances and a diversified portfolio.

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2018 with the previous year in brackets:

Euro	£16.9m	(£15.8m)
US Dollars	£88.4m	(£77.5m)

The remaining exposures arise from much smaller investments relating to other currencies.

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2018 there were pending foreign exchange purchases of £1.1m and corresponding of sales £1.1m. Following analysis of historical data in consultation with the Fund's advisors, the Council considers the likely volatility associated with foreign exchange rate movements to be 9.2%. This volatility is applied to the Fund's overseas assets as follows:

PENSION FUND

Asset Type	Asset Value at 31 March 18 £000	Change %	Value on Increase £000	Value on Decrease £000
Overseas Equities	312,935	9.2	341,735	284,135
Overseas Fixed Income	84,025	9.2	91,758	76,292
Other Alternatives	57,094	9.2	62,348	51,840
Total	454,054	9.2	495,841	412,267

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

The Fund is also exposed to credit risk through Securities Lending. The Securities Lending (SL) programme is run by the Fund's custodian, Northern Trust. Northern Trust assign four different risk management oversight committees to control counterparty risk, collateral risk and the overall securities lending programme. The minimum level of collateral for securities on loan is 102%. However, more collateral may be required depending on the type of transaction. To further mitigate risks, the collateral held on behalf of the Pension Fund is ring fenced from Northern Trust. Securities lending is capped by investment regulations and statutory limits are in place to ensure no more than 25% of eligible assets can be on loan at any one time. The Fund's exposure through the SL programme is now reduced as the Fund is now passively managed and SL activity has greatly reduced.

iii) Liquidity Risk

Liquidity risk is the risk that the Pension Fund will have difficulties in paying its financial obligations as they fall due. For example; the benefits payable costs and capital commitments. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. The Fund holds a large proportion of assets in instruments which can be liquidated at short notice, normally three working days. As at the 31 March 2018 these assets totalled approximately £0.974m, comprising of bonds and equities, with a further £86.2m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

7. DERIVATIVE CONTRACTS

As at 31 March 2018 there were pending forward foreign exchange purchases of £1.1m and sales of £1.1m, with an unrealised loss of £62. The net gains and losses in the table below relate to foreign exchange forward contracts.

Asset Type	2017/18 £'000	2016/17 £'000
Foreign Exchange Gains	2	0
Foreign Exchange Losses	(4)	0
Total Realised Gains/(Losses)	(2)	0

PENSION FUND

8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions**Debtors**

	31/03/18 £000	31/03/17 £000
Equity Dividends / Income from Managed Funds	0	31
Interest and Other Income	2,740	387
Pending Trades	361	2,700
	3,101	3,118

Creditors

	31/03/18 £000	31/03/17 £000
Pending Trades	(3,085)	(3,453)
	(3,085)	(3,453)

Non-Investment Transactions**Debtors**

	31/03/18 £000	31/03/17 £000
Contributions Due from Admitted/ Scheduled Employers/ Employees	189	645
Interest and Other Income	0	21
LB Lewisham	64	35
Tax Refunds	34	0
	287	701

Creditors

	31/03/18 £000	31/03/17 £000
Fund Manager and Custody Fees	(283)	(251)
Consultancy/ Advisory Fees	(56)	(48)
LB Lewisham	(1,350)	(176)
	(1,689)	(475)

9. CASH AND BANK**Cash Held With Custodian**

The Northern Trust Company is the Fund's global custodian and the cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2018 was £86.2m (£36.5m as at 31 March 2017). Approximately £14.0m from the 2015/16 disinvestment in Investec was held by the custodian in a cash fund which is drawn down to meet cashflow requirements during the year, whilst £50.7m representing proceeds from equity sales as part of the Fund's rebalancing was held in a separate cash fund to meet commitments to the Fund's multi-asset credit mandate. £10.1m of the cash held was from HarbourVest, £8.1m from M&G, £3.0m from Schroders and approximately £138k was being held on behalf of the other managers.

PENSION FUND

Pension Fund Bank Account

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31 March 2018.

10. POST YEAR END EVENTS

The Fund executed the first stage of a rebalancing exercise in 2017/18, consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results, part of which was to procure two new fund managers with multi-asset credit mandates. As at 31 March 2018 the Fund had not yet been admitted to one of these funds, the Partners Group Multi Asset Credit 2017 (IV) GBP fund. In April 2018 Lewisham was successfully onboarded into the fund, with a commitment to invest £40m; the first capital call was issued and payment made of £20m on 23 April 2018.

The Fund also procured a new infrastructure mandate in March 2018 with J.P. Morgan, but as at 31 March 18 had not been admitted to the fund. Lewisham's commitment to the infrastructure fund will be approximately £80m, with a first capital call likely mid-year.

Following the local elections of May 2018, a new Pensions Investment Committee will convene for its first meeting on 28 June 2018. The Committee comprises four previously sitting Councillors, including the re-elected Chair, and four new Councillors with varying degrees of pensions knowledge and experience. The Fund's strategic direction, in line with its Funding and Investment Strategies, will be reassessed by Members in the coming months in conjunction with the results of the next triennial valuation to be carried out as at March 2019.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2018:

Fund Manager	Fund	Amount (‘000)	Translated (£’000)
HarbourVest	Harbourvest Partners VIII - Cayman Venture Fund L.P	\$190	135
HarbourVest	Harbourvest Partners VIII - Cayman Buyout Fund L.P	\$833	593
HarbourVest	HarbourVest Partners X AIF L.P.	\$24,158	17,215
HarbourVest	HIPEP VII (AIF) Partnership Fund L.P.	\$14,550	10,368
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Partnership Fund L.P	€ 700	613
HarbourVest	Harbourvest International Private Equity Partners V - Cayman Direct Fund L.P	€ 180	158
Pemberton	European Debt Investments Jersey II LP	£12,226	12,226
	Total		41,308

12. RELATED PARTY TRANSACTIONS

There have been no material transactions with related parties in the financial year. There were no provisions for doubtful debt and amounts written off in the period.

Eight Councillors sit on the Pensions Investment Committee which oversees the Fund. At each meeting of the Pensions Investment Committee, Councillors are required to make declarations of interest which are recorded.

During the year the following declarations were made:

- Councillor Simon Hooks declared he now works in the life insurance and pensions field.

Four members and an independent chair make up the membership of the Pensions Board, which assists the administering authority in adhering to the Regulations with regards to its administration and governance of the scheme. At each meeting of the Board, members are required to make declarations of interest which are recorded.

During the year no declarations of interest were made apart from the members being participants in the scheme, although this is a requirement of their Board membership.

PENSION FUND

No other trustees or Council chief officers with direct responsibility for pension fund issues made any declarable transactions with the Pension Fund in the period to 31 March 2018.

The Council, the administering body, had dealings with the Fund as follows:

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £661k (included in Administration Expenses in Note 3). Some cash transactions relating to pension activities are currently effected through the Council's bank account and consequently pension fund cash balances are held by the Council from time to time and vice versa.
- The salary of the Executive Director for Resources and Regeneration for 2017/18 was £189,977 including employer pension contributions of £34,894. This total also includes an allowance for acting as Chief Executive following the resignation of the previous post holder.

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 40 'open' AVC contracts for LGPS members (i.e. excluding members with AVC contracts who have left Lewisham and now have preserved benefits). Some of these 'open contracts' will be for members who have paid AVCs in the past but who have suspended payments to the scheme for the time being.

The fund has two AVC providers: Clerical Medical and Equitable Life. The value of AVC investments is shown below. The contributions are held by the providers and do not form part of the Lewisham fund's assets in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

	2017/18			2016/17		
	Equitable Life £000	Clerical Medical £000	Total £000	Equitable Life £000	Clerical Medical £000	Total £000
Value at the Beginning of Year	461	848	1,309	442	792	1,234
Contributions and Transfers Received	4	173	177	4	112	116
Investment Return	17	10	27	18	80	98
Paid Out	(48)	(155)	(203)	(3)	(136)	(139)
Value at the End of the Year	434	876	1,310	461	848	1,309

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2016/17:

Lewisham Homes
Haberdashers' Aske's Knights Academy
Christ The King Sixth Form College
St Matthew Academy
Tidemill Academy
Griffin Schools Trust

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2018, arranged in descending order by the value of their contributions in 2016/17:

Phoenix
Youth First LTD
Phoenix Agency Services
Chartwells Compass

PENSION FUND

Skanska
Lewisham Music
3 C's Support
One Housing
NSL (formerly known as National Car Parks Ltd)
Wide Horizons
Change Grow Live
Nviro
Fusions Leisure Management
Quality Heating
Housing 21
Pre-School Learning Alliance
Blenheim CDP (Ceased November 2017)
Excalibur (Ceased March 2017)
Tower Services
Chequers Contract Services – Lee Manor
Lewisham Nexus Services (Ceased April 2017)

16. STOCK LENDING

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent.

The economic benefits of ownership are retained when securities are on loan. The Fund has its full entitlements at all times to any income due, or rights on its securities on the anticipated date of the entitlement so that no economic benefits are foregone as a result of securities lending activity.

Northern Trust is responsible for collecting dividend and interest income on loaned securities from borrowers. The right to vote moves with the securities.

As at the 31 March 2018 the value of aggregate stock on loan was £0m (£9.3m as at 31 March 2017). As part of the Fund's rebalancing in year and the sale of equities to finance investments in new mandates, assets in segregated accounts which participated in stock lending arrangements were sold or traded into pooled life funds.

Collateral

The collateral held as security on loans cannot be sold or repledged in the absence of default by the borrower. The Council entered into stock lending transactions during the financial year earning £3k net of direct expenses (compared to £8k in 2016/17). The value of collateral held as at 31 March 2017 was £0m (£9.8m as at 31 March 2017).

17. MEMBERSHIP

	Active Members		Deferred Beneficiaries		Retired Members	
	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17
Administering Authority	5,331	5,814	8,701	9,679	7,184	7,098
Scheduled Bodies	1,180	916	1,166	825	339	243
Admitted Bodies	126	137	122	117	99	90
	6,637	6,867	9,989	10,621	7,622	7,431

18. AUTHORISATION

These accounts were approved by Council on XXth July 2018

ANNUAL GOVERNANCE STATEMENT

To Follow

Lewisham

Annual Governance Statement

2017/18

What is corporate governance?

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards; and for having a governance framework that comprises of the culture, values, systems and processes by which this is achieved. It must make sure that public money is safeguarded, properly accounted for and used economically, efficiently and effectively to meet its strategic objectives.

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It also has a duty, through the establishment of internal control measures, to manage risk to a reasonable level by identifying, prioritising, evaluating and managing the risks to the achievement of its policies, aims and objectives. Finally, it has a duty to secure continuous improvement in the way in which its functions are exercised.

The Council has approved and adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA (the Chartered Institute of Public Finance and Accountancy) and SOLACE (the Society of Local Authority Chief Executives and Senior Managers) Framework Delivering Good Governance in Local Government. This statement explains how the authority has complied with the code and also how it meets the requirements of the Accounts and Audit (England) Regulations 2015 in relation to the publication of a statement on internal control.

“Corporate governance is about making sure that the Council is run properly. It is about ensuring the Council does the right things, at the right time and in the right way.”

How has this statement been prepared?

Every year a review of the effectiveness of the Council's governance framework is conducted by the Annual Governance Statement working party, which comprises policy, legal and audit officers with expertise in governance and internal control matters.

The group meets quarterly to collate and evaluate governance evidence and identify areas requiring action; and is responsible for analysing CIPFA/SOLACE guidance in relation to the development of this statement and ensuring that the statement is approved via the Council's key control mechanisms.

The governance review process includes:

- The consideration of the Annual Governance Statement Action Plan by the Council's Internal Control Board (ICB) during the year.
- The consideration of the Accounts, the Head of Corporate Resources (as Head of Internal Audit) Annual Report and the Annual Governance Statement by the Council's Audit Panel.

- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts.
- Sign off by the Chair of the Council and Chief Executive, once approved.
- This year, the Council's governance arrangements have broadly operated as designed, with some acting-up arrangements (principally in respect of the Head of Paid Service and Section 151 Officer roles) from November 2017 to May 2018 pending the recruitment and start of a new Chief Executive.

What are the Council's governance arrangements?

The Council's governance arrangements aim to foster effective leadership and high standards of behaviour; a culture based on openness and honesty; and an external focus on the needs of service users and the public. The diagram on page 5 shows the Council's external facing governance structure, as set out in the Council's constitution.

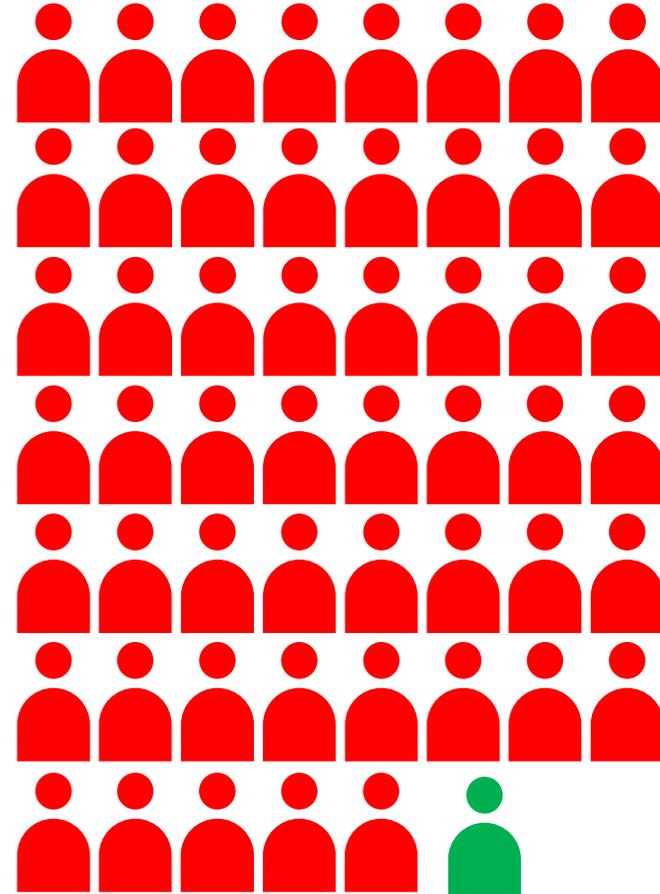
Lewisham's directly elected Mayor provides the Council with clear strategic direction and effective leadership but the Council also benefits from the perspectives and contributions of its 54 Councillors. The Council's constitution clearly defines the roles of councillors and officers, and this clarity contributes to effective working relationships across the Council. The Constitution Working Party, the Standards Committee and the Audit Panel monitor and challenge the governance arrangements and ensure their robustness.

The Council has worked closely with its partners, both strategic and operational. The Council has two statutory partnership boards: the Safer Lewisham Partnership which works to protect the community from crime and help people feel safer; and the Health and Wellbeing Board which works to identify local health challenges and lead on the activity necessary to address them.

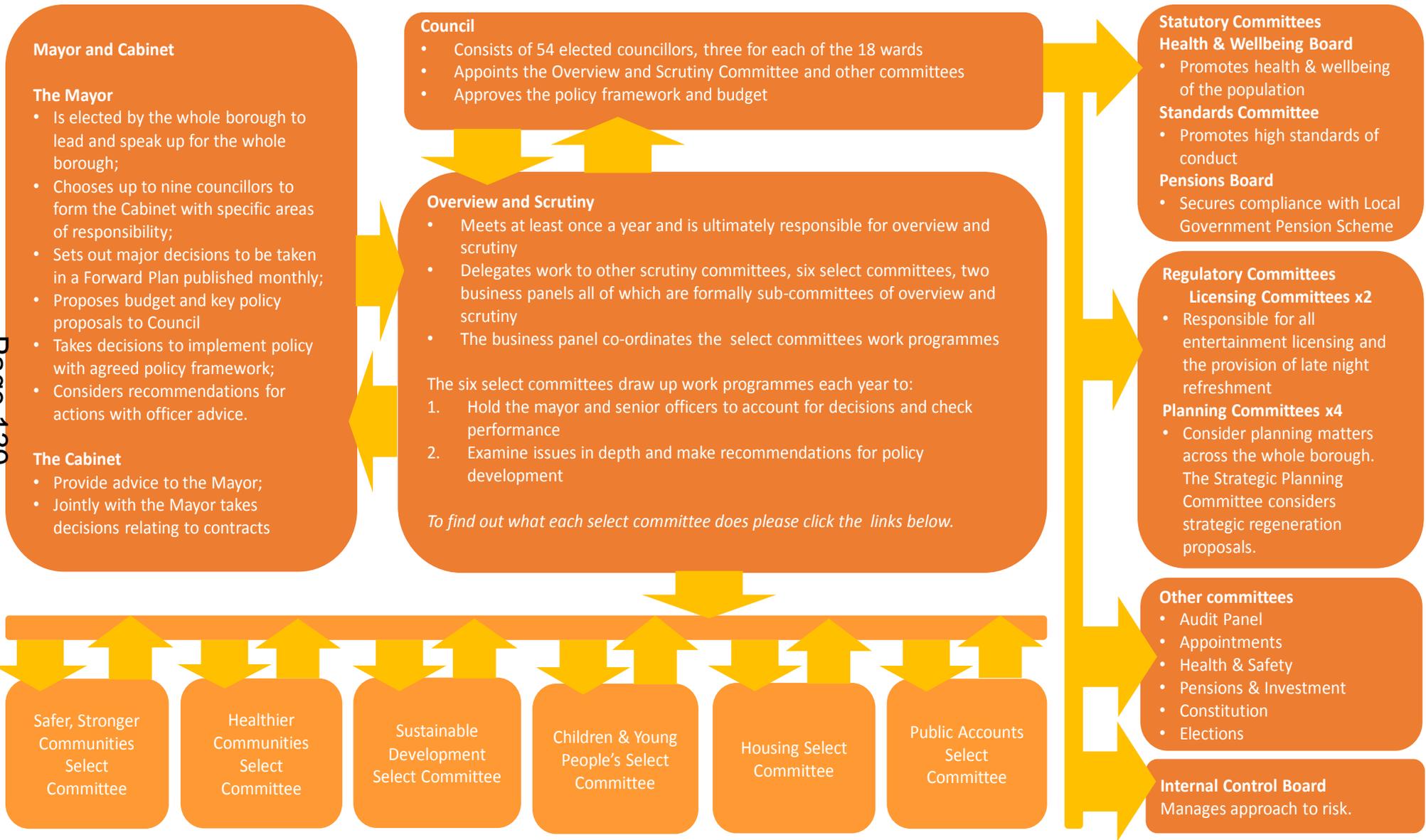
NB – from May 2018 following the local elections the Council is made up of a Labour Mayor and 54 Labour Councillors.



1 Mayor (Labour)



54 Councillors (53 Labour, 1 Green Party)



‘Together we will make Lewisham the best place in London to live, work and learn’

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Communicating and reviewing the Council’s vision

The Council has an overarching vision for the borough which is shared by its key partners and which was developed following extensive consultation with the community: **‘Together we will make Lewisham the best place in London to live, work and learn.** The Sustainable Community Strategy (SCS) 2008-20 outlines how all partners will work towards the vision by contributing to six key priorities:

Ambitious and achieving – where people are inspired and supported to fulfil their potential.

Safer where people feel safe and live free from crime, antisocial behaviour and abuse.

Empowered and responsible – where people are actively involved in their local area and contribute to supportive communities.

Clean, green and liveable – where people live in high quality housing and can care for and enjoy their environment.

Healthy, active and enjoyable – where people can actively participate in maintaining and improving their health and well-being.

Dynamic and prosperous – where people are part of vibrant communities and town centres, well connected to London and beyond.

The Council, in turn, has developed **ten corporate priorities** which articulate its contribution to the Sustainable Community Strategy priorities.

Delivering quality services

The Council seeks to use its resources efficiently and effectively to provide quality services which help deliver its vision for the borough. In the 2016/17 Annual Audit Letter Grant Thornton, the Council’s external auditors, commented that:

*“we are satisfied that in all significant respects the Council put in place proper arrangements to secure **economy, efficiency and effectiveness** in its use of resources for the year ending 31 March 2017”*

The Council’s performance is monitored via a monthly management report which tracks **23 performance indicators**, grouped according to the Council’s ten corporate priorities, and associated risks. The report uses Red exception reporting to focus attention on areas of poor performance or high risk and is a critical tool for supporting decisions across the organisation. The report is seen by the Executive Management Team (EMT) monthly and the Public Accounts Select Committee and Mayor & Cabinet quarterly and is published on the Council website. The appropriateness of these measures is reviewed annually. The quality of services for users is also measured through satisfaction surveys and information from the complaints and management resolution processes. In addition, where areas for improvement are identified, the Council acts swiftly to address them. For example, following governance questions raised in respect of the New Bermondsey / Surrey Canal scheme in 2016 the Council instigated an independent inquiry. This reported in 2017 confirming that officers and members had acted correctly on the facts and in accordance with their governance obligations.

The *Lewisham Future Programme* has been established to spearhead how the Council can move forward in the face of reduced government funding. Proposals from a number of thematic and cross-cutting reviews were considered in 2017/18 and an ‘Invest to Save’ transformation programme was agreed by Council. This work is underpinned by **four core values**:

*We put service to the **public first***

*We respect **all people and all communities***

We invest in employees

*We are **open, honest and fair** in all we do*

Roles and responsibilities

The Council’s constitution sets out the roles and responsibilities of the Mayor, the Chair of Council, the Council as a whole, the Executive, Statutory Officers, Overview and Scrutiny committees, Standards committees and other

committees to help ensure that all decision making activity is lawful and transparent. Decisions are taken and scrutinised in accordance with the Council and Mayoral scheme of delegation, the procedure rules set out in the constitution and on the basis of professional officer advice, as part of an annual programme of regular meetings.

Embedding Roles and Responsibilities

The Local Code of Corporate Governance and the Codes of Conduct for Members and Officers, set out in the constitution, demand the highest standards of ethical behaviour. These are reviewed regularly and are communicated widely. The Standards Committee received its annual report on Member compliance with the Code of Conduct in November 2017 and considered that there was a high level of compliance. Training on the Member Code of Conduct was delivered to all Councillors in June 2014, following the local elections that year, as part of a comprehensive induction programme to enable Members to understand and access all appropriate support and development to undertake their role. A similar approach is proposed for all Councillors to follow the May 2018 elections.

***‘The Mayor** is elected to **lead** the Council. They serve for a period of **four years**. They must act in the **interests of the borough as a whole**. They are responsible for taking most*

*of the **main decisions**, and for **giving the power** to others to do so.’*

***‘Councillors** are elected for a term of **four years**. Councillors who are elected to represent local wards must both represent the people of the ward that elected them and act in the interest of the whole area. They are all expected to contribute to the **good governance** of the area and to encourage **community participation**. They must respond to their constituents’ enquiries **fairly and without prejudice**.’*

‘The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly’

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Decision making

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. This includes declaring if they have a personal interest in the matters under discussion and, if required, withdrawing from the room whilst the

decision is taken. Reports are produced in a standard format to ensure that report authors address all significant considerations such as the legal, financial and equalities implications of decisions. The minutes of every formal meeting are published on the Council website.

The constitution requires Executive decisions to be published within two working days of being taken and they may be **called-in** (referred to the Mayor for reconsideration) by the Overview and Scrutiny Business Panel and the Education Business Panel. Two matters were called in by the Overview and Scrutiny Business Panel in the 2016/17 period. The Council has a Constitution Working Party (CWP) to advise it on the operation of its constitutional arrangements but in practice, the procedure rules set out in the constitution are under constant review to reflect changing needs.

The constitution sets out which decisions are referred to Full Council. In 2017/18 the independent inquiry reported to Full Council having investigated matters related to the Council’s proposed compulsory purchase order of land at New Bermondsey/ Surrey Canal. The Council was found to have acted consistently and correctly.

Internal Audit

The role of internal audit is to provide an objective opinion on the internal control environment within the Council. Its work is set out in an annual internal audit plan that covers the activities where internal audit and management perceive there

are risks to achieving objectives. A number of audits take place each year to analyse relevant controls and following each audit an assurance statement indicating the level of assurance that management can place on the adequacy and effectiveness of the internal controls is produced. In 2016/17 81 assurance reviews were undertaken and the annual opinion of the Head of Internal Audit was:

*"I have considered all of the work undertaken and reported on by the Internal Audit Service, Anti-Fraud and Corruption Team and other sources of assurance available to the Council for the audit year 2016/17. In my opinion, **Limited** assurance can be placed on the adequacy and effectiveness of Council's*

*Corporate internal controls framework in place and **Satisfactory** assurance can be placed on the Schools internal controls framework"*

The next internal audit annual opinion will be presented to the Audit Panel in July 2018.

External audit

The Council's governance, risk and control management arrangements are subject to an annual independent review by Grant Thornton, the Council's external auditors. The last review gave an unqualified opinion on the 2016/17 financial statements, commented on the need to create management capacity to effect transformational change, and noted that:

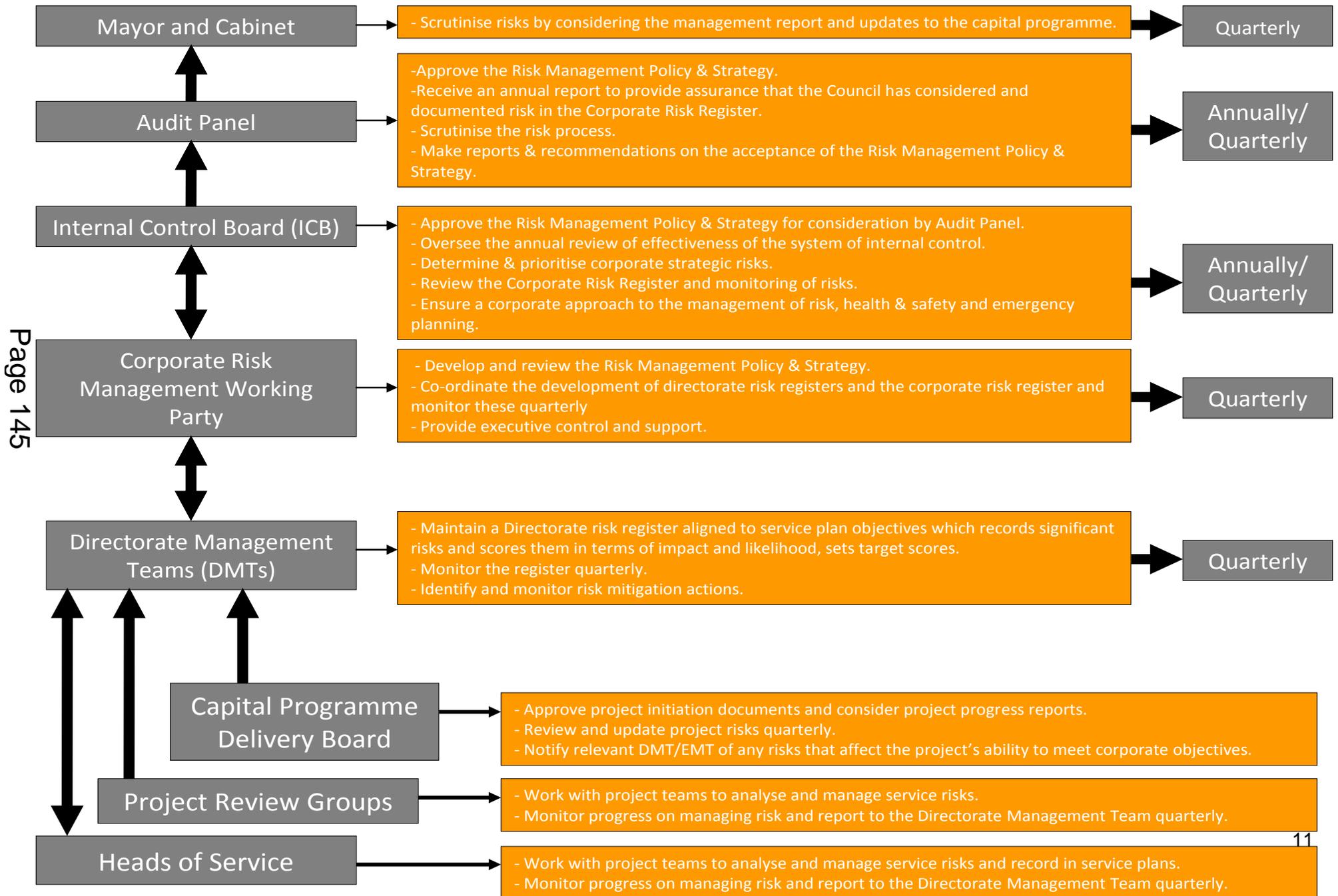
"... we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources..."

Audit Panel

The Council's Audit Panel meets quarterly and is made up of a mixture of Councillors and independent advisors. The key roles of the Panel are to:

- Review and comment on the strategy, plans and resources of Internal Audit. Internal Audit update reports, summarising the audit reports issued, management's progress on implementing any recommendations and the performance of the Internal Audit function, are received by the Panel on a quarterly basis.
- Consider and monitor the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Consider the external auditor's annual plan and other relevant external reports which contribute to the level of assurance.
- Consider the Council's annual Statement of Accounts and this statement and make comments to Full Council when it considers the accounts.

Risk and Strategy Framework



Compliance

The Monitoring Officer is central to ensuring compliance with the rules and procedures set out in the constitution. The Monitoring Officer attends Mayor and Cabinet and Full Council meetings and regularly briefs EMT, councillors and relevant staff on corporate legislative developments; and legal advice is incorporated in every council report. Where gaps or non-compliance are identified, appropriate action is taken. The financial management of the authority is conducted in accordance with financial regulations set out in the constitution and the Council has designated the Executive Director of Resources and Regeneration as its Chief Finance Officer, who advises on the proper administration of the Council's financial affairs, keeping proper financial records and maintaining effective systems of financial control. The Council has a [whistle-blowing policy](#) in place which is publicised on the Council's website. Complaints made under this policy are handled by the Monitoring Officer and an annual review is considered by the Standards Committee.

Training and Development

The Council runs a Member Development Programme, focussed on the period following local elections, which ensures that all Councillors have access to the training and development opportunities they need to fulfil their responsibilities to the local community and provide clear leadership and effective scrutiny of local Council functions. The development needs of senior officers are the responsibility of

the Head of Personnel and Development and the Monitoring Officer who are aware of their statutory duties and stay abreast any changes in relevant legislation. At the start of the financial year the Chief Executive defines objectives for each of the Executive Directors which are then cascaded to officers throughout the organisation through the Performance Evaluation Scheme.

Engaging the community and partners

The Council's engagement activity is overseen by the Strategy Performance and Communications Board (SPCB) which operates at Executive Director level and provides a strategic steer on the communication and consultation agendas within the Council.

The Council promotes e-Participation through its online engagement system which provides a platform through which citizens can respond to online consultations as well as set up and respond to e-Petitions. Ward-level Local Assemblies are an opportunity for residents to work with their ward councillors to shape the future of their neighbourhood; and the Young Citizens Panel gives young people aged 11 – 18 the chance to feed into council policy and spending decisions, including the use of the Young Mayor's budget.

The Council's website includes a page on open data and transparency, which gives information on spending; wages of senior managers; Freedom of Information requests; the annual audit of accounts; the pay policy; and Council decisions. The

arrangements for strategic partnership working are set out earlier in this statement. Periodically the Council also engages in wide consultation and communication activities.

How do we know our arrangements are working?

Throughout the year, the Council regularly reviews the effectiveness of its governance framework, including its system of internal control. Activity undertaken includes:

- Consideration of governance issues by the ICB – including risk registers, counter-fraud updates and internal audit reports.
- Preparation of a rolling plan of audit coverage to be achieved in the forthcoming year by the Head of Audit and Risk, primarily based on an assessment of the Council’s risk profile, and review of the plan by ICB.
- Receipt of the Internal Audit Strategy by the Audit panel and approval of the annual audit plan.
- Preparation of the annual assurance report by the Head of Resources, setting out his opinion on the Council’s overall control environment and approval of the report by the Audit Panel.
- Annual updates to the Public Accounts Select Committee on the work of the Audit Panel

- Consideration by EMT of a full range of governance and performance issues throughout the year, including issues relating to the improvement of the Internal Audit Service and scrutiny of performance and risk (ensuring management action is taken where necessary).
- Consideration of the following reports by the Standards Committee:
 - Compliance with the Member Code of Conduct (November 2017)
 - Review of Compliance with the Council’s Code of Corporate Governance (July 2017)
- Consideration of external audit reports by Mayor and Cabinet, Audit Panel and relevant Select Committees.
- Changes made by the Constitution Working Party, such as the introduction of the Pension Board

What are our governance priorities going forward?

Our priorities include:

- Managing risk and change across Council services in light of the further budget reductions the Council faces, whilst at the same time maintaining internal control;

- Addressing the external and internal audit findings reported to the Audit Panel in 2017/18 to maintain and, where necessary, improve the Council's financial controls.
- Reviewing the Council's vision, values and objectives through a range of community, partner and service strategies, consistent with the priorities of the new administration and environment in which the Council is operating.

Signed

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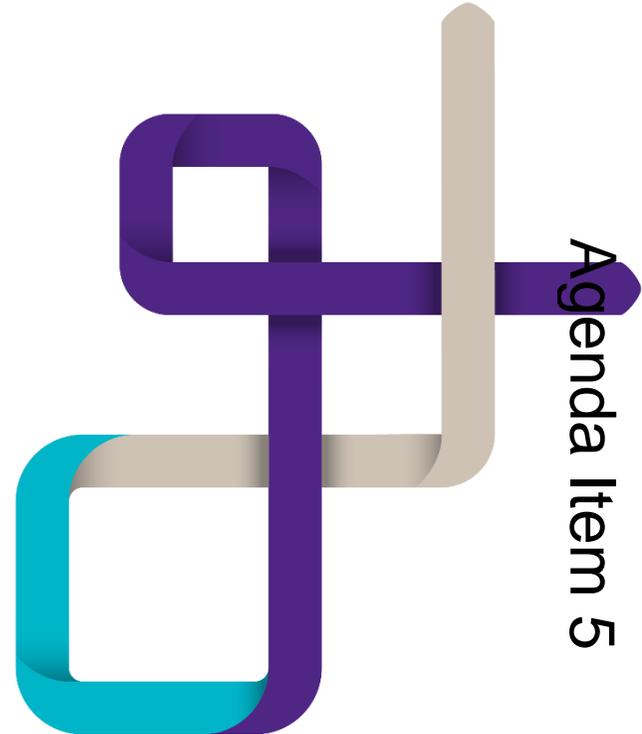
Audit Findings

Year ending 31 March 2018

London Borough of Lewisham Council

12 July 2018

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Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

This table summarises the key issues arising from the statutory audit of London Borough of Lewisham Council ('you') and the preparation of the group and your financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion:	Our audit work was undertaken during June and July. Our findings are summarised on pages 5 to 21. We have not, as at the date of writing this report (6 July 2018) identified any adjustments to the financial statements that have impacted on your financial position. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.
<p>• the group and your financial statements give a true and fair view of the group and your financial position and of the group and your expenditure and income for the year, and</p> <p>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</p>	<p>We are also required to report whether other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by 31 July 2018, as detailed in Appendix E.</p> <p><i>Outstanding items include the following items where we are awaiting information from you as at the date of writing this report in order to continue our work:</i></p> <ul style="list-style-type: none"> - receipt and review of operating expenditure transactions and creditor samples; - receipt and review of other revenues transactions and debtors sampling; - receipt and review of employee starter and leaver forms; - receipt and review of accounting treatment for the restructuring of a LOBO - receipt and review of housing benefits transaction testing; - receipt and review of responses from financial institutions for loans, investments and bank balances - receipt and review of responses to letters sent to management and those charged with governance; and - receipt and review of documentation supporting journals;
		<p><i>We are still completing work in the following areas, in addition to those areas above where we are awaiting information:</i></p> <ul style="list-style-type: none"> - non-domestic rates revenue; - review of the Annual Governance Statement; and Narrative Statement - group accounts consolidation process; - testing of senior officer pay disclosures, member's allowances and exit packages; - cash and bank account testing; - property, plant and equipment; - Pension fund net liability; and - review of the going concern assumption <p><i>We are still to complete the following closing procedures, which are concluded at the end of the audit:</i></p> <ul style="list-style-type: none"> - senior management quality reviews; - receipt of your management representation letter; - consideration of subsequent events; - review of the final set of financial statements; and - review of Whole of Government Accounts. <p>We have yet to conclude that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of your organisation and with the financial statements we are auditing.</p>

Headlines continued

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- you have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion')

In our audit plan we reported a significant risk in respect of the governance arrangements over your transformation programmes. You are in the process of undertaking an internal review of these processes and in respect of a number of matters that have arisen. We are awaiting the conclusion of your review prior to undertaking our work in respect of this risk. This is unlikely to be completed by the deadline of 31 July 2018.

We plan to issue our vfm conclusion after we had an opportunity to consider your review and complete our work in respect of this risk.

We have undertaken work on the other significant risks we identified in our audit plan in respect of our vfm work. We will consider our final vfm conclusion once our work in respect of all significant risks is completed.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- certify the closure of the audit

We have not exercised any of our additional statutory powers or duties.

In the prior year 2016/17 audit, we received two objections from electors in respect of your LOBO loans. We are still awaiting information from the Council to enable us to consider our response to these objections. As such, we have not yet certified the closure of the 2016/17 audit.

We will not be able to certify the conclusion of the 2017/18 audit until we have certified the closure of the prior year audit and completed our work in respect of your 2017/18 vfm conclusion.

Acknowledgements

We would like to take this opportunity to record our appreciation for the helpful assistance provided by management, the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group and your business and is risk based, and in particular included:

- An evaluation of the components of the group based on a measure of materiality, considering each as a percentage of total group assets and revenues to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that a comprehensive audit response was required for the London Borough of Lewisham and a targeted, analytical approach was required for Lewisham Homes Limited and Catford Regeneration Partnership Limited components.
- An evaluation of your internal controls environment including your IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

We are anticipating giving you an unqualified audit opinion, subject to the completion of outstanding work set out on page 3. As we are still completing work in a number of areas (highlighted on page 3) we will issue an addendum to this report should any further issues arise in the completion of our work, prior to issuing the opinion.

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our materiality calculations have been updated from the planning materiality reported to you in the Audit Plan. This was to reflect the decrease in gross expenditure (adjusted for one-offs) in the 2017/18 draft accounts compared to the final 2016/17 accounts. The basis of the calculation (1.75% of gross expenditure) remains the same. We have not identified any areas that require a materiality for specific transactions, balances or disclosures. We have used this level of materiality for group consideration as the value of transactions through the subsidiaries would not have a significant impact on the materiality level

Amount (£)

Materiality for the financial statements	17,004,000
Performance materiality	13,966,000
Trivial matters	998,000

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- There is little incentive to manipulate revenue recognition.
- Opportunities to manipulate revenue recognition are very limited.
- The culture and ethical frameworks of local authorities, including London Borough of Lewisham Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk for you.

2

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Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. You face external scrutiny of your spending, and this could potentially place management under undue pressure in terms of how they report performance.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We are undertaking the following work in relation to this risk:

- Review of accounting estimates, judgments and decisions made by management.
- Review of journal entry process and selection of large and unusual journal entries for testing back to supporting documentation.
- Review of accounting estimates, judgements and decisions made by management.
- Review of unusual significant transactions.

As set out on page 3, we have not completed our testing of journal transactions as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3

Valuation of property, plant and equipment

You revalue your land and buildings at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes to fair value, to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.

We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.

Auditor commentary

We are undertaking the following work in relation to this risk:

- Review of management's processes and assumptions for the calculation of the estimate.
- Review of the competence, expertise and objectivity of any management experts used.
- Review of the instructions issued to valuation experts and the scope of their work.
- Discussions with your valuer about the basis on which the valuation was carried out, challenging the key assumptions.
- Testing of revaluations made during the year to ensure they were input correctly into your asset register and financial statements.
- Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding.
- Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value.

Our audit work completed so far has not identified any material issues in respect of valuation of property, plant and equipment

4

Valuation of pension fund net liability

Your pension fund liability as reflected in its balance sheet represent a significant estimate in the financial statements.

We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.

Auditor commentary

We are undertaking the following work in relation to this risk

- Identifying the controls put in place by management to ensure that the pension fund net liability is not materially misstated and assessed whether those controls were implemented as expected and whether they were sufficient to mitigate the risk of material misstatement.
- Review of the competence, expertise and objectivity of the actuary who carried out your pension fund valuation.
- Gaining an understanding of the basis on which the IAS 19 valuation was carried out, undertaking procedures to confirm the reasonableness of the actuarial assumptions made.
- Review of the consistency of the pension fund net liability disclosures in notes to the financial statements with the actuarial report from your actuary.

Our audit work completed so far has not identified any material issues in respect of valuation of the pension fund net liability.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

1

Employee remuneration

Payroll expenditure represents a significant percentage of your expenditure.

As the payroll expenditure comes from a number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.

Auditor commentary

We are undertaking the following work in relation to this risk

- Documented our understanding of processes and key controls over the transaction cycle.
- Undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding.
- Obtained and reviewed the year-end payroll to general ledger reconciliation and investigated any significant reconciling items.
- Agree payroll related accruals to supporting documents and review the reasonableness of estimates.
- Completed substantive analytical procedures on the completeness of payroll.

As set out on page 3, we have not completed our testing of employee remuneration as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

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2

Operating expenses

Non-pay expenses on other goods and services also represents a significant percentage of your operating expenses. Management uses judgement to estimate accruals of un-invoiced costs.

We identified completeness of non- pay expenses as a risk requiring particular audit attention:

Auditor commentary

The following audit work has been performed:

- Evaluated your accounting policy for recognition of non-pay expenditure for appropriateness; and
- Gained an understanding of the your system for accounting for non-pay expenditure and evaluate the design of the associated controls.

The following work is yet to be completed:

- Sample cut off testing of payments made in April and May 2018 to ensure these have been charged to the appropriate year. We are still waiting for some of these sample items back.

As set out on page 3, we have not completed our testing of operating expenses as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any significant issues that require reporting.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income from Council Tax, Non-Domestic Rates and rents is accounted for in the year it is due. Income from the sale of goods is recognised when you transfer the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received. Income from the provision of services is recognised when you can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received. Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract. 	We reviewed your revenue recognition policies. We have no material concerns with your revenue recognition policies or with the application of those policies. The revenue recognition policies adopted are in line with the CIPFA Code of Practice on Local Authority Accounting.	 Green
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include <ul style="list-style-type: none"> Revaluations and impairments Useful life of PPE Expenditure accruals Accounting for PFI Schemes Valuation of pension fund net liability Provision for NNDR appeals Other provisions IAS 19 asset valuation 	We have not identified any material issues in relation to any of the areas of estimate and judgement reflected within the financial statements.	 Green
Other critical policies		We have reviewed your policies against the requirements of the CIPFA Code of Practice on Local Authority Accounting. Your accounting policies are appropriate and consistent with previous years.	 Green

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
3	Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	A standard letter of representation has been requested from you, including specific representations in respect of the Group, which is included in the Audit Panel papers.
5	Confirmation requests from third parties	We requested from management permission to send confirmation requests to banking and investment institutions that you had deposits or loans with. This permission was granted and the requests were sent. All of the requests received so far were returned with positive confirmation. However, 5 requests have not yet been received. These are being chased by the audit team with support from management.
6	Disclosures	Our review has so far found no material omissions in the financial statements.
7	Significant difficulties	We did not experience any significant difficulties in delivering our audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

Issue	Commentary
① Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>This work is yet to be completed.</p>
② Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>This work is yet to be completed.</p>
③ Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold of £500m we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not yet been completed and is subject to a later deadline. We will complete the work in later July and early August.</p>
④ Certification of the closure of the audit	<p>We do not expect to be able to certify the completion of the 2017/18 audit of London Borough of Lewisham Council in our auditor's report, as detailed in Appendix E. This is because the certificate for 2016/17 has not yet been issued, as we are awaiting information from management in respect of two objections received from an elector in 2017. In addition, we will need to undertake further work on our Value for Money conclusion in respect of the significant risk over your transformation projects, following the conclusion of your own review into matters arising in this area.</p>

Value for Money

Background to our VFM approach

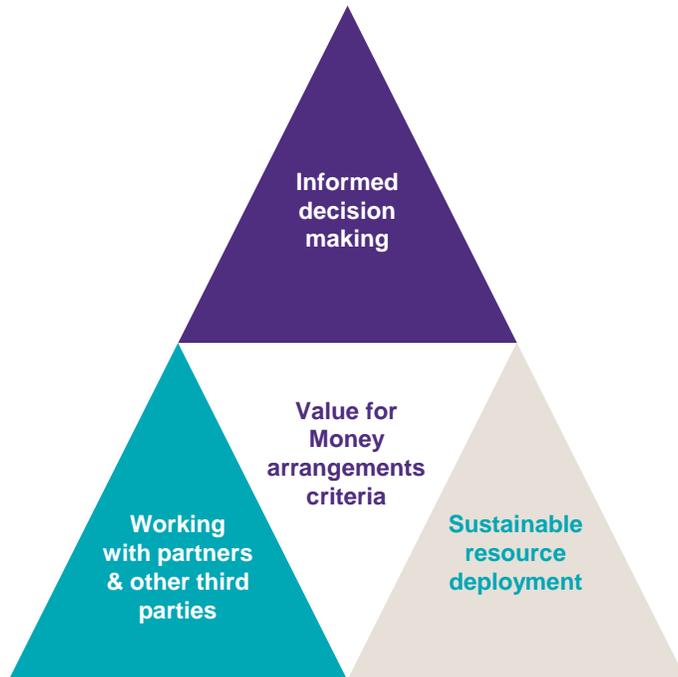
The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether you have proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”

This is supported by three sub-criteria, as set out below:

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Risk assessment

We carried out an initial risk assessment in January and February and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2018. The risks that we identified were as follows:

- budget management;
- savings and medium term financial planning; and
- transformation

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of your arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in your arrangements. In arriving at our conclusion, our main considerations were:

- Your outturn position against general fund revenue budgets for 2017/18
- Whether your Medium Term Financial Strategy is based up a reasonable assumptions
- The appropriateness of arrangements in place in respect of your transformation programmes

We have set out more detail on the risks we identified, the results of the work we performed and the conclusions we drew from this work on pages 14 to 19.

Overall conclusion

In our audit plan we reported a significant risk in respect of the governance arrangements over your transformation programmes. You are in the process of undertaking an internal review of these processes and in respect of a number of matters that have arisen. We are awaiting the conclusion of your review prior to undertaking our work in respect of this risk. This is unlikely to be completed by the deadline of 31 July 2018.

We plan to issue our vfm conclusion after we had an opportunity to consider your review and complete our work in respect of this risk.

We have undertaken work on the other significant risks we identified in our audit plan in respect of our vfm work. We will consider our final vfm conclusion once our work in respect of all significant risks is completed.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

You are in the process of undertaking an internal review of governance arrangements over your transformation schemes. We are awaiting the conclusion of your review prior to completing our work.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p>Budget Management</p> <p>You are currently (at risk assessment) projecting a £12.9m overspend on the 2017/18 budget. Should you utilise the risk and other budget pressures reserve in full this will reduce your overspend to £11.6m. This anticipated overspend is larger than the prior year overspend of £7m. Should the position worsen then this will increase the pressure into 2018/19.</p> <p>In response to this risk we have:</p> <ul style="list-style-type: none"> Updated our understanding of the pressures affecting the 2017/18 budget. Considered whether you have adequate arrangements to manage those pressures and to secure a sustainable financial position. Considered your approach towards the use of reserves. 	<p>Summary findings</p> <ul style="list-style-type: none"> Your 2017/18 outturn position delivered a net £16.5m (7.1%) overspend. This resulted from a significant directorate overspend of £20.6m offset by directorate underspends of £2.8m and £1.3m contingency held corporately for risks and other budget pressures. The Children and Young People directorate overspend of £15.6m (32%) is particularly significant. You need to gain a clear understanding of the circumstances that have driven the overspend and put in place robust measures to address these, as well as consider the sufficiency of the budgets in these areas. There is no guarantee non-departmental underspends will continue, so vigilance over future positions is critical. Failure to deliver to budget could have a significant impact on your financial health. You increased Lewisham's share of council tax by 4.99% for 2017/18 but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required across the organisation. <p>2017/18 Financial Performance</p> <p>Like most local authorities across the country, the London Borough of Lewisham is facing a challenging financial position and uncertainty around future funding. You faced a reduction of £13.5m in the Revenue Support Grant in 2017/18 (£46.1m) compared to 2016/17 (£59.1m). You set a balanced budget for 2017/18 which relied on achieving an identified £22.2m of savings, increasing your share of council tax by 4.99% (1.99% increase plus 3.00% increase for the Social Care Precept), use of £5.0m of the New Homes Bonus for revenue purposes and release of £6.5m of corporate budget to offset risks and pressures.</p> <p>The 2017/18 £22.3m savings programme was agreed by you in the Lewisham Future Programme in September 2016. The savings which were identified as part of the budget process were deducted from the relevant service's budget. The savings programmes were not directly monitored, as monitoring was undertaken on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings. We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying the causal drivers behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ. We will consider this further in our subsequent review of your transformation governance arrangements.</p> <p>Your financial outturn position shows a £16.5m overspend on the directorates' net general fund revenue budget. However, this position was after applying £1.3m of a one-off corporate sum for risks and other budget pressures. The underlying service level overspend is therefore £17.8m, with the most significant overspends in Children and Young People (15.6m or 32%) and Customer Services (£5.0m or 11.7%). These were offset by underspends elsewhere, including £1.9m in the Resource and Regeneration directorate and 0.9m in the Community Services directorate. Despite the overspends, the General Fund balance at year end remained at £13.0m and Earmarked reserves increased by around £10.5m to £160.1m.</p> <p>The overspends have been regularly communicated to senior officers and members. The financial position is reported to members through the quarterly Public Accounts Select Committee meetings as at May, September, December and January, and monthly to the Executive Management Team. Until January 2018 the Council was reporting an overspend of approximately £13.0m. This was largely driven by demand led services within the Children and Young People directorate, mainly children's social care, and the environment section of the Customer Services directorate.</p>

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
Budget Management Continuation of risk noted on the previous page.	<p>From May 2017, overspends in Children and Young People were forecast to be £7.0m and rose steadily to £8.6m in January 2018. That significant overspends were forecast from so early in the year indicates a weakness in the arrangements for identifying assumptions for the budget setting in this area. You should strengthen the budget setting arrangements and improve the robustness of the assumptions on which the budget is based. The overspend had increased significantly to £15.6m by the end of the year. The increase was not due to a dramatic surge in demand led services in February and March. Instead it was due to assumptions made in financial forecasting that included mitigations that had been expected to be made earlier in the year that had not come to fruition. This resulted in the additional overspend only being reported at the year end. This indicates a weakness in the arrangements around the reporting of financial information to management and members. The final overspend was due to demand throughout the year for residential care places (£3.2m), fostering (£2.0m), placements in semi-independent accommodation (£1.8m) and other placements. Furthermore, a £7.5m overspend on staffing, particularly due to agency spend to meet the increased demand, had a negative impact on the Children's Social Care budget. Also contributing to the overspend in the Children and Young People Directorate is an overspend of £1.0m on schools' transport due to the increased use of taxis for extra pupils being transported following a reduction in the number of buses in service. We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these to prevent unexpected deterioration of the financial position at the end of the year.</p>

The other significant area of overspend was £5.0m in the Customer Service directorate. The largest element of this was the £3.2m overspend in the Environment section. Most of this was attributable to the £2.1m overspend in the refuse service caused by the delay in implementing the move to fortnightly collections and introduction of the new food and garden waste service for which new vehicles were not procured in time to implement, leading to increased vehicle hire charges.

Authority	General fund reserves as at 31 March 2018	Gross service expenditure for 2017/18	Ratio of General Fund reserves to Gross service expenditure
	£000	£000	%
Lewisham	13,000	925,075	1.4%
Average (All London Boroughs)	19,672	879,996	2.7%
Neighbouring and comparable London Boroughs			
Greenwich	13,269	888,988	1.5%
Lambeth	22,851	1,301,324	1.8%
Newham	12,352	1,202,228	1.0%
Southwark	18,803	1,257,329	1.5%
Tower Hamlets	33,255	1,260,278	2.6%
Croydon	10,393	1,174,044	0.9%
Waltham Forest	14,572	863,711	1.7%

Your General Fund position has remained at £13.0m at 31 March 2018, which is the same as in 31 March 2017. This has been achieved through the use of one-off corporate resources, such as the £10.9m transfer of NHS long term creditors to Health Reserves and £6.5m surplus on Corporate Provisions.

This ratio of General Fund reserve to gross service expenditure is relatively low in comparison to other London Boroughs. It is around half that of the average of all London Boroughs, and when compared to your closest and most comparable size boroughs only Croydon and Lambeth have lower ratios. There is the risk that this level of General Fund Reserves is not sufficient to cope with the additional pressure of a significant unexpected incident.

Conclusion

There may be scope to strengthen governance and monitoring arrangements by monitoring savings delivery, shortfalls and causal factors, in addition to the normal budgetary monitoring processes. There is also scope to strengthen budgetary monitoring processes and the assumptions used in respect of demand-led growth. This view is subject to our outstanding work on the Transformation risk which we will consider in a later report.

Key findings (Continued)

Significant risk

Findings and conclusion

Savings and medium term financial planning

You have set a balanced budget for 2018/19 which includes an overall increase in the total Council Tax of 4.20%, and savings of £4.9m. In addition, the budget proposals include a transfer of £5m from the New Homes Bonus reserve to the General Fund, the use of £3.6m reserves. You have also set aside £13.4m for identified and unidentified corporate risks and pressures. Going forward you will need to identify further savings of circa £85m for 2019/20 and 2020/21. Your Medium Term Financial Strategy anticipates that post 2020 approximately £10m per year of savings will be required.

In response to this risk we have:

- Considered your arrangements to identify and deliver savings and efficiencies towards achieving a sustainable medium term financial position.
- Updated our understanding of how you are working with partners in the local health economy to achieve savings.

Summary findings

- For 2018/19, you have set a balanced budget, with generally robust underlying assumptions.
- You have increased your share of council tax by 3.99% but, as service pressures are expected to grow, substantial efficiency and transformation savings will continue to be required.
- Your Medium term financial strategy shows the budget has been balanced for 3 years with the use of reserves.
- You will need to make savings of around £53.6m between 2019/20 and 2022/23 – a significant requirement which highlights further the point made in the previous section about the importance of specifically monitoring savings scheme delivery and understanding shortfalls, over and above the existing budgetary monitoring processes. Savings required in 2019/20 are higher than in previous years, when lower levels of savings were not delivered.
- There are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.
- You have £13m of general fund reserves to cushion you against the on-going financial challenges that you face over the medium term. However, these represent only 1.4% of your annual spend, and should be used to invest in future transformation, rather than propping up budgetary overspends.
- The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18. This may indicate further improvements over the accuracy of activity assumptions are required.

2018/19 Budget Setting

You set a balanced budget for 2018/19 in February 2018. Reductions in Settlement Funding Assessment, inflation and service growth presented an overall budget gap of £8.6m to be funded from reserves. You have closed this through a £5.0m reserve transfer from the New Homes Bonus reserve to the General Fund for the third consecutive year and a further £3.6m one-off use of reserves. You have increased your share of council tax by 3.99 to provide an extra £10.2m, and identified planned savings of £4.86m.

The New Homes Bonus (NHB) paid by government is expected to decrease by between a third and a half from its 2018/19 level of £6.9m. Whilst your New Homes Bonus reserve has increased in value in recent years despite regular transfers to the General Fund, the NHB received may soon drop below the transfer levels, and in the long term the use of this sort of transfer will become unsustainable.

Schemes are reasonably well developed, and have been put in place for 2018/19. The structure enables you to focus on key streams and supports cross-cutting initiatives rather than top-slices to budgets. To maximise the impact of savings plans, project review should be incorporated more closely into the budget monitoring and outturn reports to ensure planned savings are delivering the desired effect. It is currently unclear from the budget report the extent to which overspends are being driven by purely demand led increases, against the success or failure of savings initiatives.

Medium Term Financial Strategy

Your latest Medium Term Financial Strategy (MTFS) is due to be published in July 2018. The financial outlook in the medium term remains very challenging for local government, with significant uncertainties over the economic and political environment. Beyond 2020 it is difficult to predict what the size of the challenge is as this will depend on the decisions of a future government. You have made prudent assumptions about your future funding, including the following:

- Government will phase out the Revenue Support Grant
- NNDR will be completely devolved to local government

Key findings (Continued)**Significant risk****Findings and conclusion****Savings and medium term financial planning**

Continuation of risk noted on page 16

- Council tax increases continue to be capped below 2 per cent, with a precept for social care
- The Collection fund will deliver a reducing surplus for the foreseeable future
- Pay and non-pay expenses will be subject to 2-3% inflationary pressures
- Pressures and risks growth of £6.5m - £7.5m for the three years of 2021/22 to cover additional expenditure associated with a growing, aging population, household growth, the impact of changes in legislation and regulations, and the impact of reducing preventative services in the early years of austerity

The July 2018 Medium Term Financial Strategy covers the four year period from 2019/20 to 2022/23. You have modelled best, worst and most likely case scenarios for this period. Comparing these saving scenarios to the ones in the July 2017 MTFS, you can see the impact the overspends in 2017/18 and the failure to meet savings targets has had in increasing the pressure over the next three year period. Under the above and other assumptions the range of estimates of future savings requirements (£m) is:

July 2017 MTFS	2018/19	2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22		
Optimistic	20.77	10.31	6.99	8.73	-	46.80	26.03		
Main	21.28	10.85	10.04	9.41	-	51.58	30.3		
Pessimistic	24.85	14.63	17.19	12.74	-	69.41	44.56		
July 2018 MTFS		2019/20	2020/21	2021/22	2022/23	Total	2019/20 to 2021/22	Increase in savings required	
Optimistic	-	14.75	8.10	10.24	5.22	38.30	33.08	7.05	27%
Main	-	16.82	12.42	14.55	9.76	53.56	43.794	13.494	45%
Pessimistic	-	19.05	18.43	18.85	13.38	69.70	56.32	11.76	26%

In the July 2018 MTFS, between 2019/20 and 2021/22 the savings that are required to be found have increased by £13.5m, a 45% increase, compared to the July 2017 MTFS. This demonstrates the importance of having robust savings plans and delivering them in year rather than rolling them onto the next year when the ask may be more than can be managed.

Since 2015, your MTFS has made no allowance for inflation on non-pay expenses. This has meant that not only have you had to make savings year on year to offset losses in government funding, but that also cuts and service efficiencies have been required to absorb external inflationary cost pressures. This assumption has been removed from the July 2018 MTFS. A large element of your overspend pressures in recent years have related to 'needs led' statutory duties including supporting the most vulnerable, and sustained pressures arising from statutory duties relating to services such as waste and environmental health; the MTFS also assumes that these cost pressures will be met from your existing budgets. You have spent considerable effort seeking to mitigate these risks and it is important that you remain vigilant in how you monitor and manage these burdens.

The medium term financial plan is led by the Lewisham Futures Board, which develops savings options for the Mayor and cabinet to consider. Its focus has been on implementing the £21.3m savings for 2018/19. In a change from previous years, the current plan for 2019/20 and 2020/21 is not based around the 18 strategic work streams or themes that came from the Lewisham Future Board. The change of approach has been instigated by the new Chief Executive. It was felt the previous method had become overly complicated and lost some of the strategic value it was adding. The new method begins in July with Star Chambers overseen by the Executive Team challenging service leads on every aspect of their budgets. Detailed proposals for the cuts identified from these will be presented to members for scrutiny later in the year. Having made around £160m of reductions in expenditure in the eight years from 2010/11, the 'easy' savings and cuts have been made. Future savings will have to come from longer term projects, transforming how you provides services which requires up front investment to obtain future benefits. The effectiveness of your transformation governance is therefore essential to your future financial sustainability and achievement of challenging savings plans and budgets.

Key findings (Continued)**Significant risk****Findings and conclusion****Savings and medium term financial planning**

Continuation of risk noted on page 16

The first financial forecast for 2018/19 presented to the Public Accounts Select Committee up to May 2018 is forecasting a deficit of £14.8m, with a majority (£13.5m) again due to the Children and Young People directorate. This indicates weaknesses in the budget setting arrangements as the assumptions around the provision of children's social care appear not to have taken into account issues that led to similar overspends in 2017/18, given how soon the forecast overspends arise following the setting of the budget. This may indicate further improvements over the accuracy of activity assumptions are required. Containing these budget pressures will also depend on the effectiveness of your transformation governance, delivery of savings and demand management and outreach schemes, to ensure budgets can be delivered within the growth assumptions. The medium term planning shows an improving outlook which is broadly in line with your high level thinking over council tax and growth plans. However, more savings are proposed to 2019/20 than have been in place in previous years. This is a significant risk, as you have not managed to deliver the lower level of savings proposed in 2017/18. In addition, there are longer term pressures from demand led services that could continue to manifest in 2018/19 and beyond.

Reserves and financial position

Despite the financial pressures that you have faced and your investments in supporting the borough, once useable earmarked reserves are added to your £13m of general fund reserves, your overall reserves position is relatively healthy, compared to many London Boroughs. As at 31 March 2018, you had total general fund reserves and earmarked reserves excluding schools reserves of £149.9m, compared to £145.9 as at 31 March 2017 and £148.7m as at 31 March 2016.

The following table sets out a summary of your reserves position and key financial ratios as at 31 March 2018 relative to other London Boroughs as per their draft published financial statements for 2017/18:

London Borough of Lewisham - financial position: key performance measures

Measure	London Borough of Lewisham	Average for London Boroughs	Ranking relative to other London Boroughs
Total general fund and non-schools earmarked general fund reserves as at 31 March 2018 (£m)	149,927	102,585	7 / 32
Total general fund and earmarked general fund reserves as at 31 March 2018 (£m)	173,123	112,862	7 / 32
Total usable revenue and capital reserves as at 31 March 2018 (£m)	347,452	253,530	7 / 32
Useable capital and revenue reserves as a percentage of gross service revenue expenditure	37.6%	28.9%	9 / 32
Current ratio (current assets / current liabilities)	2.00	1.50	5 / 32

This analysis highlights that as at 31 March 2018 your reserves level placed you in the top quartile of the 32 London Borough. Nevertheless, it is important that you take appropriate action to maintain your reserves position.

As it currently stands, your reserves level provides you with a measure of support in respect of the on-going financial challenges that you face over the medium term due to reductions in central government funding and forecast increases in demand for your core services. However, you only have finite reserves available and it is important that you continue to maintain appropriate budgetary control going forward. It is also important to develop a comprehensive reserves strategy, detailing the plans you have over the use of the reserves and, given their one off nature, the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term to support you transformation programme and efficiency schemes.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and conclusion
<p data-bbox="58 301 302 386">Savings and medium term financial planning</p> <p data-bbox="58 401 271 455">Continuation of risk noted on page 16</p>	<p data-bbox="339 301 472 329">Conclusion</p> <p data-bbox="339 344 1943 455">The early appearance of forecast significant overspend on the revenue budget in 2018/19 in similar areas to 2017/18 suggests weaknesses in the accuracy of the assumptions in this area. Development of a Reserves Strategy would ensure one-off monies are used effectively support the transformation needed to remain financially sustainable. Our final conclusion is subject to our outstanding work on the Transformation risk which we will consider in a later report.</p>

Key findings (Continued)

Significant risk

Findings and conclusion

Transformation

You are planning a significant transformation programme. This will be technology enabled and seek to drive the right cultural outcomes from, and for, people, facilitating innovation to drive transformational benefits – financial and non-financial – resulting in service improvements and better working with residents. Any transformation programme of this scale, complexity and ambition carries inherent risk.

In response to this risk we will:

- Update our understanding of overarching programme management arrangements.
- Consider whether you have adequate arrangements to manage the interdependencies, identify and realise planned benefits and ensure robust and effective programme governance.
- Assess the extent to which transformational plans and medium term financial planning is aligned, and whether assumptions in financial plans align with programme ambitions.

Summary findings

- You are currently undertaking an internal review of the governance arrangements over your transformation programmes. We are awaiting the conclusion of your review before completing our work in this area. Because of this we are not able to conclude against this significant risk at this stage. We will conclude our value for money conclusion once we have had an opportunity to consider the outcome of your review and consider the impact on our conclusion and on the other significant risks.

Independence and ethics

Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers and managers). In this context, we disclose the following to you:

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related			
Certification of Housing capital receipts grant	3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers' Pension return	6,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work £6,500 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Place Analytics subscription for 3 years from 2016/17	26,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this for 3 year period from 2016/17 was £26,000 in comparison to the total fee for the audit of £193,233 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Panel. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Action plan

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
1	 Our testing of IT General Controls identified breaches of password policies, users with default responsibilities with excessive privileges and a lack of audit logging in Oracle EBC or the Database. There is the risk that passwords are not strong enough and unauthorised access may be gain to the Council's IT systems. The full details of the control findings have been shared with management.	<p>The detailed recommendations have been shared with management.</p> <p>Management response</p>
2	 Our testing of creditors identified an old creditor account with no activity for more than 5 years. The creditor was investigated and found not to be valid. Whilst it was not indicative of a material error, there risk is that there are other invalid creditors on the creditors ledger.	<p>We recommend you review all creditor accounts that have had no activity for more than 6 months and determine whether the creditor remains valid.</p> <p>Management response</p>
3	 The savings programmes were not directly monitored, as monitoring was undertaken only on overall budgets. In our view, this results in a lack of transparency and clarity in identifying whether the overspends are the result of under-delivery of savings plans or genuine unavoidable pressures from demand increases. Without this clarity, you may not be able to properly assess the robustness of future plans and make an informed judgement as to the deliverability of the £13.0m of additional savings in the 2018/19 budget. This also risks hampering your ability to make informed decisions in response, and your ability to properly assess performance in delivering transformational savings.	<p>We would recommend strengthening governance in this area by specifically monitoring the delivery of savings programmes and the success of the schemes involved and, importantly, where savings are not delivered as planned, identifying and explaining the reasons behind this. This will also enable you to determine whether overspends are due to failed savings programmes or deficiencies in the budget setting and delivery processes. It is important to understand these distinctions as the responses needed in each case may differ.</p> <p>Management response</p>
4	 You do not have a Reserves Strategy. There is the risk that you continue to use reserve transfers each year to balance budgets instead of pump prime transformation, preventing a strategic use of reserves.	<p>We recommend you develop a comprehensive reserves strategy, detailing the plans you have over the use of the reserves. Given the one off nature of the transformation programme, you should detail the 'return on investment' you hope to achieve from strategic investment of these reserves over the medium term</p> <p>Management response</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Action plan (continued)

Assessment	Issue and risk	Recommendations
5	 <p>The financial forecast reports contained mitigations that were expected to be achieved in the first half of the year but were not, which reduced the forecast deficit position until the end of the year. This prevented management and members from gaining a full understanding of the levels of and reasons behind overspends.</p>	<p>We recommend presenting more information around the mitigations included in the forecast outturn reports to enable closer scrutiny of these, to enable greater monitoring in respect of unexpected deterioration of the financial position at the end of the year.</p>

Management response

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Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Lewisham Council's 2016/17 financial statements, which resulted in recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note they are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1</p> <p>X</p>	<p>We completed a high level review of your IT controls and at the shared service provider, focussing on the interface between the two. Consistent with previous years the review highlighted significant issues specifically around default passwords and accounts, audit logs, change management, separation of duties and access controls.</p> <p>We have reported these findings in detail to management in a separate paper and we have discussed these with the Head of Financial Services.</p> <p>We understand you are considering the future of your IT arrangements following the expiry of the current shared services contract.</p>	<ul style="list-style-type: none"> Work completed by our team of IT experts identified similar issues in work completed on the 2017/18 IT General Controls. Issues were in the areas of breaches of password policies, users with default responsibilities with excessive privileges and lack of audit logging in Oracle EBC or the Database.

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Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusting misstatements as part of our audit work to date.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Housing Revenue Account Note 7	<ul style="list-style-type: none"> Figures in Note 7 of the HRA Statement haven't been updated for 2017/18. 	<ul style="list-style-type: none"> The table should be updated to reflect the correct figures. 	✓

Audit Adjustments

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2017/18 Statement of Accounts as at the date of writing this report.

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2016/17 Statement of Accounts as at the date of writing this report.

Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee
Council Audit	£193,233	£TBC
Grant Certification	£30,370	£30,370
Total audit fees (excluding VAT)	£223,603	£223,603

We will report the final proposed fees for the year following the conclusion of our work in respect of your vfm arrangements. Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

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Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Certification of Teachers' Pension return	£6,500
• Certification of Housing capital receipts grant	£3,500
Non-audit services	
• Place Analytics subscription	£26,000
Total (excluding VAT)	£36,000

Draft Audit opinion

We anticipate we will provide the Group with an unmodified audit report

Independent auditor's report to the members of London Borough of Lewisham

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Statement, the Housing Revenue Account – Movement in Reserves Statement, the Collection Fund Revenue 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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 for the audit of the financial statements section of our report. We are independent of the group and the Authority 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.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resources and Regeneration's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director for Resources and Regeneration has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Executive Director of Resource and Regeneration is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages **[**xx to xx**]**, the Narrative Statement by the Executive Director for Resources and Regeneration and the Annual Governance Statement, other than the group accounts and Authority 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 of the group and Authority obtained in the course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Statement by the Executive Director for Resource and Regeneration and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director of Resource and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resource and Regeneration. The Executive Director for Resource and Regeneration 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director for Resource and Regeneration is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit Panel is Those Charged with Governance.

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.

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.

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing 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 the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority 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 Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2018. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2018. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We cannot formally conclude the audit and issue an audit certificate for the Authority for the year ended 31 March 2018 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our consideration of objections related to the year ended 31 March 2017 brought to our attention by local authority electors under Section 27 of the Local Audit and Accountability Act 2014. We are satisfied that these matters do not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

[Signature]

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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London
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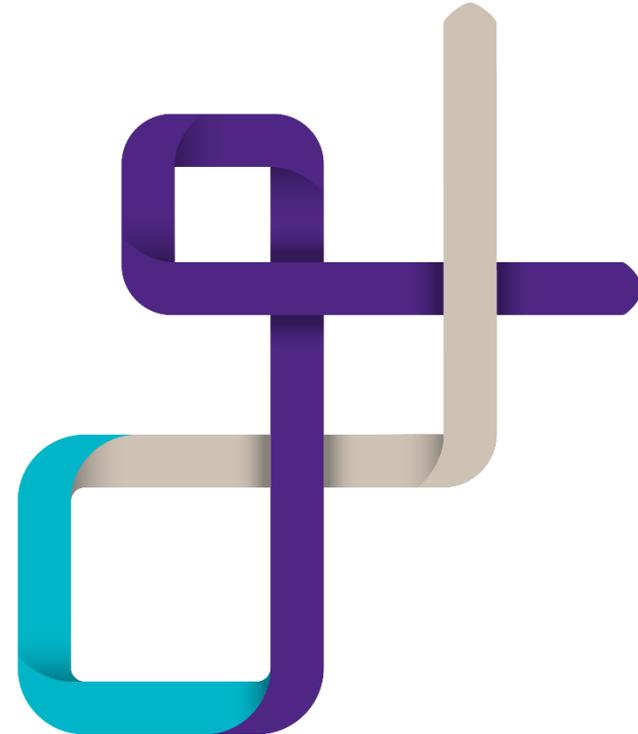
[Date]

Audit Findings

Year ending 31 March 2018

DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY



Contents



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Section

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2. Financial statements
3. Independence and ethics

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Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements

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Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;

Our audit work was undertaken on site during June and July. Our findings are summarised on pages 4 to 12. Our work is still ongoing. We have not, in our work to date, identified any adjustments to the financial statements that have resulted in an adjustment to the Fund's reported financial position. Any audit adjustments will be detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit Panel meeting on 12 July 2018, as detailed in Appendix E.

Outstanding items include the following items where we are awaiting information from you as at the date of writing this report in order to continue our work:

- receipt and review of contributions samples

We are still completing work in the following areas, in addition to those areas above where we are awaiting information:

- investments;
- benefits payable; and
- member data.

We are still to complete the following closing procedures, which are concluded at the end of the audit:

- senior management quality reviews;
- receipt of your management representation letter;
- consideration of subsequent events;
- review of the final set of financial statements; and
- review of Whole of Government Accounts.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management and the Audit Panel.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Controls testing of the benefits payable system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

Conclusion

We are anticipating giving you an unqualified audit opinion, subject to the completion of outstanding work set out on page 3. As we are still completing work in a number of areas (highlighted on page 3) we will issue an addendum to this report should any further issues arise in the completion of our work, prior to issuing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for London Borough of Lewisham Pension Fund.

	Amount (£)
Materiality for the financial statements	12,746,000
Performance materiality	9,559,000
Trivial matters	637,000

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Lewisham Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed management's assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2016 also demonstrated an improvement in the funding level to 78%.
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant audit risks

Risks identified in our Audit Plan

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Commentary

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- The culture and ethical frameworks of local authorities, including the London Borough of Lewisham Pension Fund, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the London Borough of Lewisham Pension Fund.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We will complete the following work in relation to this risk:

- review of accounting estimates, judgements and decisions made by management
- testing of journal entries
- review of accounting estimates, judgements and decisions made by management
- review of unusual significant transactions
- review of significant related party transactions outside the normal course of business

As set out on page 3, we have not completed our testing of journal transactions as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Significant audit risks

Risks identified in our Audit Plan

The valuation of Level 3 investments is incorrect

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We identified the valuation of level 3 investments as a risk requiring special audit consideration.

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Commentary

Auditor commentary

We are undertaking the following work in relation to this risk:

- gain an understanding of the Fund's process for valuing level 3 investments and evaluate the design of the associated controls
- review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.
- consideration of the competence, expertise and objectivity of any management experts used.
- review the qualifications of the expert, Northern Trust, to value Level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached.
- for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2018 with reference to known movements in the intervening period.

As set out on page 3, we have not completed our testing of the valuation of Level 3 investments as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Reasonably possible audit risks

Risks identified in our Audit Plan

Contributions

Contributions from employers and employees' represents a significant percentage (83%) of the Fund's revenue.

We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention

Commentary

Auditor commentary

We are undertaking the following work in relation to this risk:

- evaluate the Fund's accounting policy for recognition of contributions for appropriateness;
- gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls;
- test a sample of contributions to source data to gain assurance over their accuracy and occurrence;
- rationalise contributions received with reference to changes in member body payrolls and the number of contributing pensioners to ensure that any unusual trends are satisfactorily explained.

As set out on page 3, we have not completed our testing of contributions as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Pension Benefits Payable

Pension benefits payable represents a significant percentage (88%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

We are undertaking the following work in relation to this risk:

- evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls;
- test a sample of individual pensions in payment by reference to member files;
- rationalise pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

As set out on page 3, we have not completed our testing of pensions benefits payable as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Reasonably possible audit risks

Risks identified in our Audit Plan

The valuation of Level 2 investments is incorrect

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Commentary

Auditor commentary

We are undertaking the following work in relation to this risk:

- gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls.
- evaluate the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.
- review the reconciliation of information provided by the pension fund's/individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances;
- consider the competence, expertise and objectivity of any management experts used.
- evaluate the qualifications of the expert, Northern Trust, to value the level 2 investments at year end and gained an understanding of how the valuation of these investment has been reached.
- for a sample of investments, test the valuation by obtaining independent information from custodian/manager on units and unit prices.

As set out on page 3, we have not completed our testing of the valuation of Level 2 investments as we are awaiting information from management to enable us to complete our work. Subject to the satisfactory receipt of this evidence and completion of our work, at this stage we have not identified any material issues that require reporting.

Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Income - Dividend income earned from equity and bonds with BlackRock is reinvested and not repaid directly to the fund as cash, but from UBS is repaid to the Fund. Interest income is recognised in the Fund as it accrues. Any amount not received by the end of the accounting period will be disclosed in the note on Debtors and Creditors. 	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	
Judgements and estimates	<ul style="list-style-type: none"> Key estimates and judgements include; <ul style="list-style-type: none"> Valuation of level 3 investments The assumptions within the IAS26 calculation of the present value of future retirement benefits The assumptions within the triennial valuation 	<p>The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting.</p> <p>Our testing to date indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.</p>	
Other critical policies		We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	

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Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2	Matters in relation to related parties	<ul style="list-style-type: none"> Based on work completed so far, we are not aware of any related parties or related party transactions which have not been disclosed
3	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	Written representations	<ul style="list-style-type: none"> Based on work completed so far, a standard letter of representation will be requested from the Pension Fund.
5	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation request to investment and bank institutions. This permission was granted and the requests were sent.. All but one of these requests were returned with positive confirmation. The outstanding request is being chased with the support of management.
6	Disclosures	<ul style="list-style-type: none"> Based on work completed so far, our review found no material omissions in the financial statements
7	Significant difficulties	<ul style="list-style-type: none"> We have not had any issues with accounts closedown, production of draft accounts or working papers.
8	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2018 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Action plan

We have identified [X] of recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2018/19 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

1	Assessment	Issue and risk	Recommendations
	●	<ul style="list-style-type: none"> In 2016/17 we identified instances where new joiners paid 2 months contributions in their second month and this date was set as their start date for pensions purposes, rather than the date they started working for London Borough of Lewisham. 	<ul style="list-style-type: none"> As part of the contribution reconciliation, follow up cases where a new joiner has not contributed so that the correct start-date can then be followed through and updated accordingly in the pensions system Altair. <p data-bbox="1058 562 1313 585">Management response</p>

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Controls

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Lewisham Pension Fund's 2016/17 financial statements, which resulted in 4 recommendations being reported in our 2016/17 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	<ul style="list-style-type: none"> Review the format of disclosures in the accounts for consistency with the Code and model accounts, particularly with respect to benefit payments. 	<ul style="list-style-type: none"> The disclosure note for benefits payable was changed last year to reflect the model accounts and remains so this year. All other disclosures are consistent with the Code and model accounts where applicable.
2	✓	<ul style="list-style-type: none"> Review working papers and ensure they can be clearly reconciled to the pension fund accounts. 	<ul style="list-style-type: none"> Working papers have been updated this year to ensure a clear and thorough link to the accounts
3	X	<ul style="list-style-type: none"> As part of the contribution reconciliation, follow up cases where a new joiner has not contributed so that the correct start-date can then be followed through and updated accordingly in the pensions system Altair. 	<ul style="list-style-type: none"> This is not currently part of the contribution reconciliation. It has been re-raised as a recommendation for 2017/18.
4	X	<ul style="list-style-type: none"> Review the ledger coding structure for pensions benefit payments so that the Council is able to extract the information required for benefits disclosures. 	<ul style="list-style-type: none"> This has not been implemented. The current manual process of running ResourceLink reports for each type of body and matching back to coded payments continues to be used which is sufficient.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

We have not identified any adjusting misstatements as part of our audit work to date.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit to date which management has agreed to make in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Actuarial present value	<ul style="list-style-type: none"> In accounting policy (q), the actuarial present value of future retirement benefits to be (on IAS 19 basis) was disclosed as £1,934m. This should have been £1,871m. 	<ul style="list-style-type: none"> Update the disclosure to agree with the actuary's report. 	✓
Member data	<ul style="list-style-type: none"> The disclosure of member data in Note 17 did not include movements from March 2018. 	<ul style="list-style-type: none"> Provide a revised note of member data 	✓

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2017/18 Statement of Accounts as at the date of writing this report.

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2016/17 Statement of Accounts as at the date of writing this report.

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit or audit related services

Audit Fees

	Proposed fee (£)	Final fee (£)
Pension Fund Audit	21,000	21,000
Total audit fees (excluding VAT)	21,000	21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA)

Draft audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of London Borough of Lewisham (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement and notes to the pension fund 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 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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 for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 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 Authority's members 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director for Resource and Regeneration's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Executive Director for Resource and Regeneration has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Executive Director for Resource and Regeneration is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages [**xx to xx**], the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund 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 pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work 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 pension fund 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.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Executive Director for Resource and Regeneration and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities [set out on page(s) x to x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Resource and Regeneration. The Executive Director for Resource and Regeneration is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2017/18, which give a true and fair view , and for such internal control as the Executive Director for Resource and Regeneration determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Executive Director for Resource and Regeneration is responsible for assessing the pension fund’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit Panel is Those Charged with Governance.

Auditor’s responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund 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 pension fund financial statements.

A further description of our responsibilities for the audit of the pension fund 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.

[Signature]

Paul Grady
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square
London
EC2P 2YU

[Date]

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{Prepare on client letterhead**}**

Grant Thornton UK LLP
30 Finsbury Square
London
EC 2A 1AG

[Click [here](#) and enter **date of letter**]

Dear Sirs

**London Borough of Lewisham
Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham and its subsidiary undertakings, Lewisham Homes Ltd and Catford Regeneration Partnership Limited for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Group Financial Statements

- i We have fulfilled our responsibilities for the preparation of the group and parent Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the group and parent Council and these matters have been appropriately reflected and disclosed in the group and parent Council financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the group and parent Council financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vi Except as disclosed in the group and parent Council financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the group and parent Council has been assigned, pledged or mortgaged

- c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- vii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the group and parent Council financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and parent Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xi We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the group and parent Council financial statements for these misstatements brought to our attention as they are immaterial to the results of the group and parent Council and its financial position at the year-end
- The group and parent Council financial statements are free of material misstatements, including omissions.
- xii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xiii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the group and parent Council financial statements.
- xiv We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xv We have provided you with:
- a. access to all information of which we are aware that is relevant to the preparation of the group and parent Council financial statements such as records, documentation and other matters;

- b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvi We have communicated to you all deficiencies in internal control of which management is aware.
- xvii All transactions have been recorded in the accounting records and are reflected in the group and parent Council financial statements.
- xviii We have disclosed to you the results of our assessment of the risk that the group and parent Council financial statements may be materially misstated as a result of fraud.
- xix We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and parent Council and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the group and parent Council financial statements.
- xx We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's financial statements communicated by employees, former employees, analysts, regulators or others.
- xxi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxii We have disclosed to you the identity of the group and parent Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the group and parent Council financial statements.

Annual Governance Statement

- xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

- i The disclosures within the Narrative Report fairly reflect our understanding of the group and parent Council's financial and operating performance over the period covered by the group and parent Council financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Panel at its meeting on 12 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of the Governing Body

{Prepare on client letterhead**}**

Grant Thornton UK LLP
30 Finsbury Square
London
EC2A 1AG

[Click **here** and enter **date of letter**]

Dear Sirs

**London Borough of Lewisham Pension Fund
Financial Statements for the year ended 31 March 2018**

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham Pension Fund (‘the Fund’) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the Fund’s financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
- vii Except as disclosed in the financial statements:
 - a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.
- ix All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.
- x The financial statements are free of material misstatements, including omissions.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.
- xii We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xiii We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xiv We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the Fund financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.
- xv We have communicated to you all deficiencies in internal control of which management is aware.
- xvi All transactions have been recorded in the accounting records and are reflected in the financial statements.

- xvii We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xviii We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund and involves:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.
- xix We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.
- xx We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxi There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- xxii We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- xxiii We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.
- xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit Panel at its meeting on 12 July 2018.

Yours faithfully

Name.....

Position.....

Date.....

Name.....

Position.....

Date.....

Signed on behalf of Council as administering body of the Pension Fund

Committee	Audit Panel		Item No.	6
Report Title	Annual Assurance Report for 2017/18			
Contributors	Head of Corporate Resources			
Class	Information	Date	12 July 2017	

1. Purpose

- 1.1. The purpose of this report is to present members of the Audit Panel with the annual opinion on the effectiveness of the Council's system of internal control from the Head of Corporate Resources, in his capacity as the Head of Internal Audit (HIA).

2. Recommendation

- 2.1. Members are asked to note the annual assurance report for 2017-18.

3. Executive summary

Background

- 3.1. This report is made annually by the Council's Head of Internal Audit (the Head of Corporate Resources).

Introduction

- 3.2. The statutory Public Statutory Internal Audit Standards (PSIAS) define the required contents of this annual assurance report.

Opinion

- 3.3. The opinion of the Head of Corporate Resources on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment during 2017-18 is **Satisfactory**. The Schools opinion remains Satisfactory.

Qualifications to the opinion

- 3.4. The qualifications to the report include
- Internal audit resources - due to vacancies in both contractor and in-house team impacted in the delivering the plans.
 - Audit planning / Risk based auditing - timing of information and details on risk registers, and
 - Management engagement – lack of evidence forth coming from management or continued cancellation of meetings.

Summary of work assurance work completed which the opinion is derived

- 3.5. The internal audit plan for 2017-18 initially had 99 pieces of audit work (72 Corporate and 27 Schools reviews), not including follow-up reviews. By the

end of the year the plan had changed to 80 pieces of work (53 Corporate & 27 Schools).

- 3.6. In respect of the corporate audits (including draft reports not finalised at the time of writing the report),
- 1 (2%) - report yet to be issued
 - 5 (9%) - had negative opinions
 - 7 (13%) - were consultancy or grant verifications
 - 40 (76%) - were positive opinions (Substantial or Satisfactory).

Issues relating to the Annual Governance Statement

- 3.7. From the internal audit recommendations in 2017/18 the common or more significant areas noted for improvement were: Budget Monitoring, including establishment; Procurement and Contract Management; Information Technology and Information Security, Oracle Cloud implementation, and Financial Control.

Statement of compliance with the PSIAS

- 3.8. The annual self-assessment of the compliance to the PSIAS, confirms that the service continues to meet the standards. For the period November 2017 to May 2018 the Head of Internal Audit was also acting as the Council's s151 officer. This was discussed with the external auditors and the Audit Panel and compensating controls implemented.

Quality Improvement Plan (QIP) for Internal Audit

- 3.9. An audit management software package was procured during 2017/18, and will go live in 2018/19. The software will result in less duplication of work and a saving on auditor days.
- 3.10. In addition, there is an action tracking module which will automatically remind officers when their actions are due.

Anti-Fraud and Corruption Team (AFACT)

- 3.11. The AFACT team work in 2017/18 focused on the risks of housing fraud and blue badges as well as supporting recruitment checks. The team is also strengthening their work on contract risk.

Risk Management

- 3.12. The risk management strategy was reviewed and adopted by the Audit Panel in 2017/18. The reporting of risk remains aligned from service plans, through Directorate risk registers, to the Corporate risk register. These are reviewed quarterly by the Executive Management Team and Internal Control Board and reported to members in the performance management report. The risks are also reviewed by internal audit to inform their plans.

Other sources of assurance

- 3.13. During 2017/18 a number of other pieces of work are undertaken from which internal audit can take assurance. For example these include: the Ofsted inspection of services to children with complex needs, legal services accreditation to professional standards, and other management checks such

as H&S assurance work and the (Acting) Chief Executive reviews of key service areas.

Role of the Head of Internal Audit

- 3.14. The annual review of the Head of Internal Audit concluded that all of the above principles were met.

4. Background

- 4.1. This report details the Head of Internal Audit's annual assurance opinion on the adequacy and effectiveness of the London Borough of Lewisham's internal control arrangements for the year from April 2017 to March 2018. This opinion and report contributes to the Council's Annual Government Statement (AGS).
- 4.2. The internal audit function is a statutory service. The Accounts and Audit (England) Regulations 2015 states, "A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance".
- 4.3. The Council's Head of Internal Audit is the Head of Corporate Resources. He also has operational responsibility for the in-house Anti-Fraud and Corruption Team (A-FACT), Insurance and Risk Management, Corporate Health & Safety, Commercial and Procurement Support, Strategic Finance, Pension Fund, and Treasury Management. He is also the Deputy Section 151 Officer.
- 4.4. During the transition between Chief Executives during the year, the Head of Corporate Resources took over the Section 151 Officer role, and some of the Executive Director for Resources and Regeneration responsibilities. These additional areas were: Capital programme, Highways and Transports assets, Commercial and Investment Delivery, Property Assets & Estates, and Estates Contract and Compliance. This was flagged to the external auditors and Audit Panel in advance and compensating controls put in place.

5. Introduction

- 5.1. The PSIAS states that the Head of Internal Audit must deliver an Annual Assurance report that can feed into the Council's AGS as part of the financial statements. The annual report must provide an opinion on the overall adequacy and effectiveness of risk management and control. In addition, the report must also include:

- a summary of the work that supports the opinion;
- the timeframe to which the opinion relates to;
- statement on conformance with the PSIAS;
- any scope limitations;
- disclosure and details of any qualification/s;
- consideration of related projects and other assurances providers;
- the risk / control framework used for the basis of the opinion; and
- any other issues that they are relevant to the governance statement.

6. Opinion

- 6.1. The Head of Internal Audit's opinion on the overall adequacy and effectiveness of the Council's risk management systems and internal control environment, including any qualifications to that opinion, is as follows:
- 6.2. "I have considered all of the work undertaken and reported on by the Internal Audit Service, Anti-Fraud and Corruption Team and other sources of assurance available to the Council for the audit year 2017/18.
- 6.3. In my opinion, '**Satisfactory**' assurance can be placed on the adequacy and effectiveness of Council's corporate internal controls framework in place. In addition, '**Satisfactory**' assurance can be placed on the Schools internal controls framework".
- 6.4. This opinion is expressed using the same scale used for internal audit report opinions. The scale ranges from Substantial to Satisfactory, through to Limited and No Assurance. Definitions are provided at Appendix 4.
- 6.5. I was part of the Annual Governance Statement (AGS) working party through 2017/18. The working party comprises a group of senior officers, chaired by the Head of Law, responsible for preparing and reviewing the Council's AGS.
- 6.6. The AGS has been updated and actions reported to the Internal Control Board throughout the year. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues that I judged relevant, such as the effectiveness of internal control, have been considered by the group and included where necessary".

7. Qualifications to the opinion

Internal Audit

- 7.1. During 2017/18, resources have been an issue for both the in-house team and the internal audit contractor due to higher than expected staff turnover, impacting delivery of the plan with some (non core) audits either started late, cancelled, or deferred to the 2018/19 audit plan. These were reported to the Audit Panel through the year.

Audit Planning / Risk Based Auditing

- 7.2. Internal audit is required to create a risk based audit plan. Wherever possible, the audits are based on the controls noted in the directorate and corporate risk registers but these are not the only source of intelligence relied on. Other sources include:
- 7.3. Head of Audit and / or the Internal Audit Manager meetings with Heads of Service to discuss their service. These meetings are used to confirm current areas of work, any potential emerging (or decreasing) risks, major changes to IT software, planned changes to processes, or any other concerns that management may have.
- 7.4. Internal audit review service and project plans for additional information or detail on changes, and their risks for the year ahead. However, the value is diluted as these are often finalised after the draft audit plan is completed in

March. For example; the sign off for service plans for 2018/19 plans was not until April/May.

- 7.5. For this reason and that change is always happening, the internal audit plan is regarded as a dynamic plan. Additions, variations, or deletions to the plan are made through the year. These are reported to Audit Panel quarterly.

Management engagement

- 7.6. During the year management engagement has seen an increase in the number of long dated (over a year) actions in response to recommendations. This suggests services are not always able to respond promptly to control risks in their processes. Also, some projects such as Oracle Cloud, where internal audit were offering to provide input in the development phases, have incurred delays. This has limited the value audit has been able to contribute on proposed process and system control changes. This resulted in the one No Assurance opinion for 2017/18 as internal audit were unable to test all the areas as required or comment on the planned controls.

8. Summary of assurance work from which opinion is derived

Delivery of the Audit Plan - Corporate

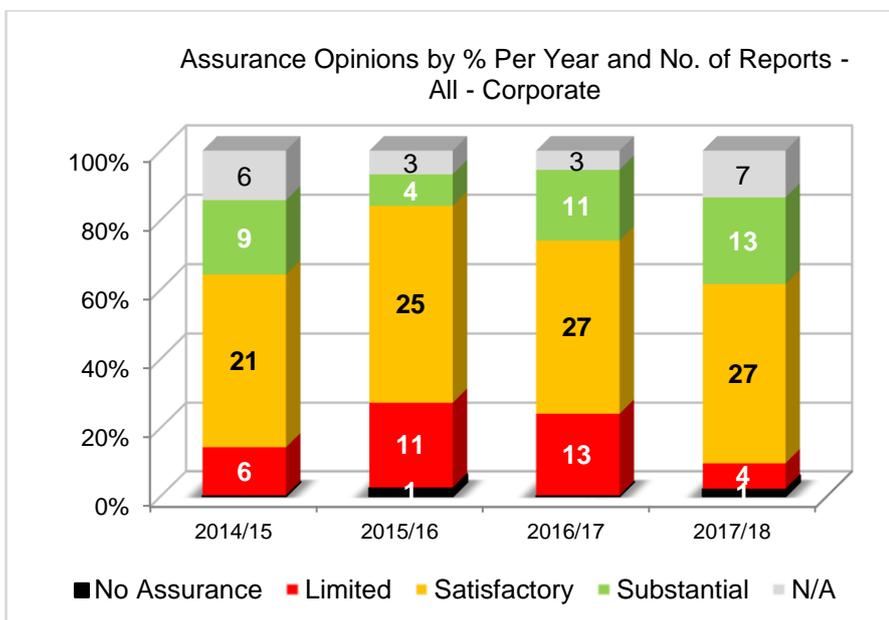
- 8.1. The corporate audit plan for 2017/18, initially had 72 pieces of work at the beginning of the year. This reduced down to 53.
- 8.2. The changes to the plan during the year were as follows:
- 8.3. Additional / brought forward audits
- LGA Graduate Training Scheme
 - Blue Badges
 - Service Plans
 - Monitoring of Child Care Providers
 - Monitoring of Lewisham. Homes
 - Multi Agency Safeguarding Hub (MASH) for Children
 - Pre Contract and Tendering.
- 8.4. Deferred to 18/19
- Multi Agency Safeguarding Hub (MASH) for Adults
 - Recruitment Process
 - SEN Process
 - Rogue Landlords
 - Disability Facilities Grant (DFG)
 - Hand over from Hospital Discharge Neighbourhood team
 - Homecare Service
 - OracleCloud – HR
 - OracleCloud – Payroll
 - ASH Debt Recovery System

8.5. Audits no longer required

- Deptford Reach Project – no longer project
- Community buildings Maintenance – Scope covered elsewhere
- New Casework System – no yet implemented
- Community Health Care Pathway – Completed by 3rd Party
- Decant Process – no longer required
- Section 47 Referrals and Data Quality – potentially covered elsewhere in 18/19
- Children Looked After and Achieving Permanence – part of CYP rolling plan – to be revised
- Children who need help and protection - – part of CYP rolling plan – to be revised
- Early Years – part of CYP rolling plan – to be revised

8.6. All corporate report opinions

The graph below (no.1), represents the percentage of audit assurance opinions (with the number of reports issued), for all corporate audits issued. The definitions of assurance opinions are Substantial, Satisfactory, Limited, and No Assurance – can be found at Appendix 4. N/A is for non-assurance work such as grant returns or consultancy reviews.



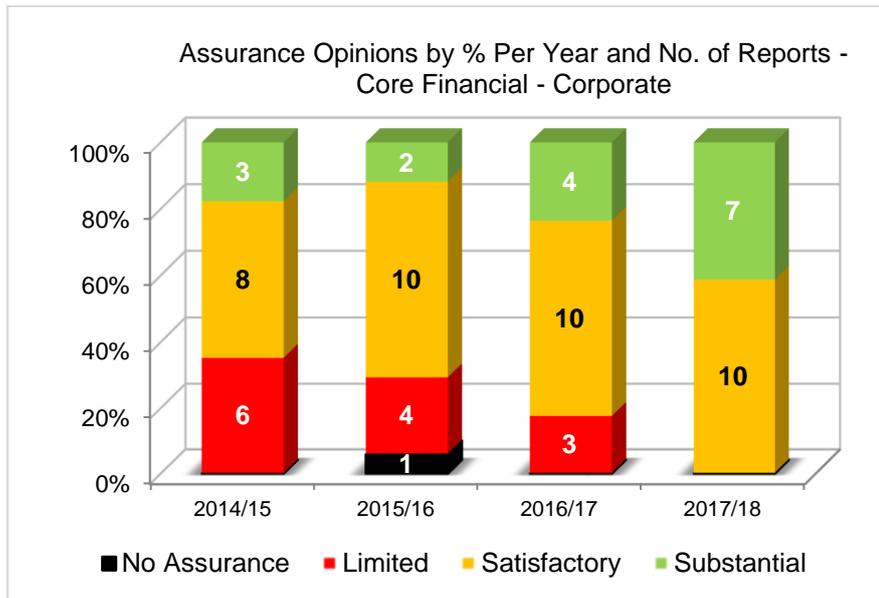
Graph 1

- 8.7. While small number of reports are at draft report stage, the audit assurance opinions from these reports are included in the chart, and throughout the report. It is not expected that on completion of these reports, that there will be any changes to the assurance opinion of these draft report.
- 8.8. The results of the corporate internal audit work for 2017/18 has seen the number of negative (Limited and No Assurance) assurance reports decrease from 13 to five. The number of negative reports are back in line with the

outcomes of 2014/15. The number of positive opinion reports are much the same as last year.

Core financial reports – opinions

- 8.9. Core financial are the key financial processes and systems within the Council. They are all currently audited on an annual basis and in 2017/18 were completed by Mazars, the Council’s internal audit contractor.
- 8.10. The graph below (No.2), shows there were no negative audit opinions for core financial in 2017/18. The trend of having less negative assurance opinions is continuing.



Graph 2

Core financial audits – Direction of Travel

- 8.11. The table below shows a comparison of the assurance opinions for the last three years for the core financial audits.
- 8.12. There was one audit that had a lower opinion than last year, but was still received a positive opinion. Seven of the audits had an improved opinion, with three going from negative to positive.

Key

SUB	Substantial	SAT	Satisfactory	LTD	Limited	NAS	No Assurance
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↗	Improved since last year	↔	Same as previous year	↘	Deteriorated since last year
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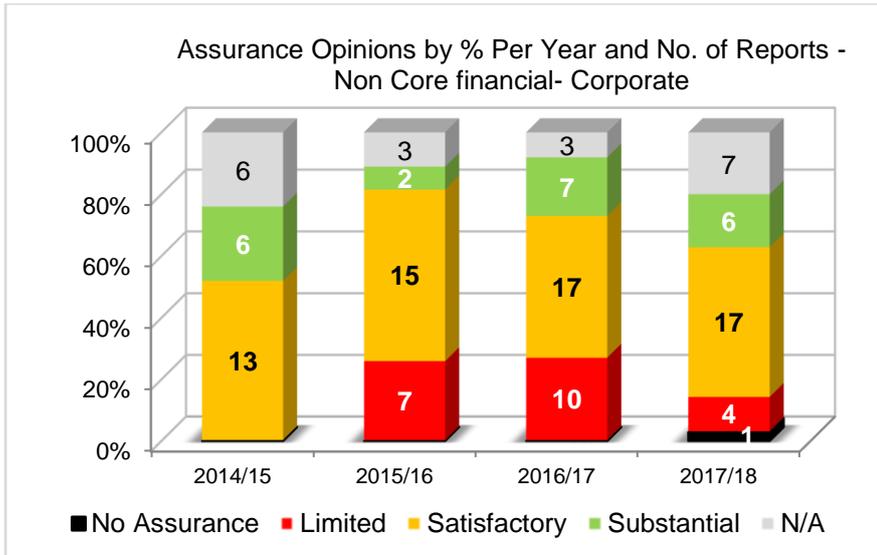
Core financial system	15/16	16/17	17/18	DoT
1. Payroll	SUB	SUB	SUB	↔

Core financial system	15/16	16/17	17/18	DoT
2. Treasury management	SUB	SUB	SUB	↔
3. Council tax	SAT	SAT	SUB	↗
4. Non-current (fixed) assets	SAT	SAT	SUB	↗
5. Housing benefit and CTRS	SAT	SAT	SUB	↗
6. Client contributions for residential & domiciliary care	LTD	SAT	SUB	↗
7. Business rates (NNDR)	SAT	SUB	SUB	↔
8. Budget setting and monitoring	SAT	SUB*	SAT	↘
9. Capital programme and expenditure	SAT	SAT	SAT	↔
10. Main accounting	SAT	SAT	SAT	↔
11. Pensions	SAT	SAT	SAT	↔
12. Payment for Child Care Providers	SAT	SAT	SAT	↔
13. Accounts payable	NAS	LTD	SAT	↗
14. Accounts receivable	LTD	LTD	SAT	↗
15. Banking	LTD	LTD	SAT	↗
16. Direct payments	SAT	SAT	SAT	↔
17. Payments to Adult care providers	LTD	SAT	SAT	↔

* Incorrectly recorded as SAT last year

8.13. Non-Core financial corporate reports

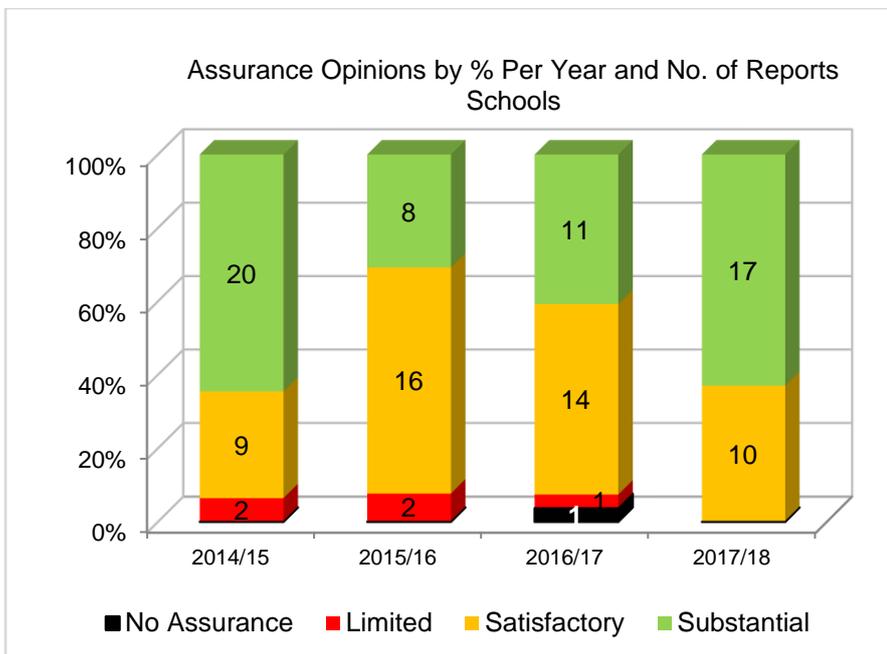
The graph below (no.3), shows an overall decrease in the number of negative opinion reports issued this year, compared to the previous two years.



Graph 3

8.14. Delivery of the Schools Audit Plan

All of the 27 schools in the original school plan were completed and finalised. The graph below (no.4) shows the school assurance opinions for the last four years by percentage (and number of reports). This is the first year where no 'Limited' / 'No Assurance' reports issued. In addition, the number of substantial opinion audits issues has also increased.

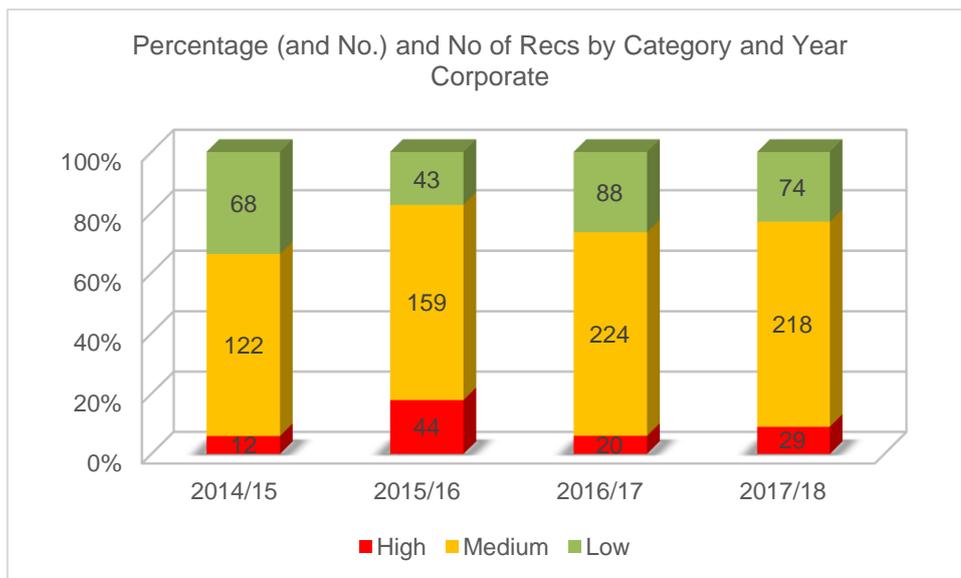


Graph 4

8.15. The results of schools audits are reported to the Audit Panel throughout the year. The annual School Forum report, which details the school audits throughout the year, is presented to the School Forum and to the Audit Panel at the end of the financial year.

Corporate Recommendations

- 8.16. When internal audit make recommendations to management, they are categorised as 'High', 'Medium' or 'Low'. Definitions of these categories are provided at Appendix 4.
- 8.17. Officers are responsible for updating the progress on implementation of their Corporate High and Medium recommendations to an internal SharePoint site.
- 8.18. Internal audit reports are given quarterly to the Audit Panel and the Internal Control Board (ICB) on the status of recommendations. The status includes:
- No. of recommendations overdue;
 - No. of recommendations reopened at a follow-up review;
 - No. of recommendations reoccurring, and
 - An aged analysis report (the time a recommendation is taking to implement).
- 8.19. The graph below presents the percentage (and number) of recommendations made by category for all 2017/18 corporate internal audits. It shows that that the number and percentage remain much the same as 2016/17.

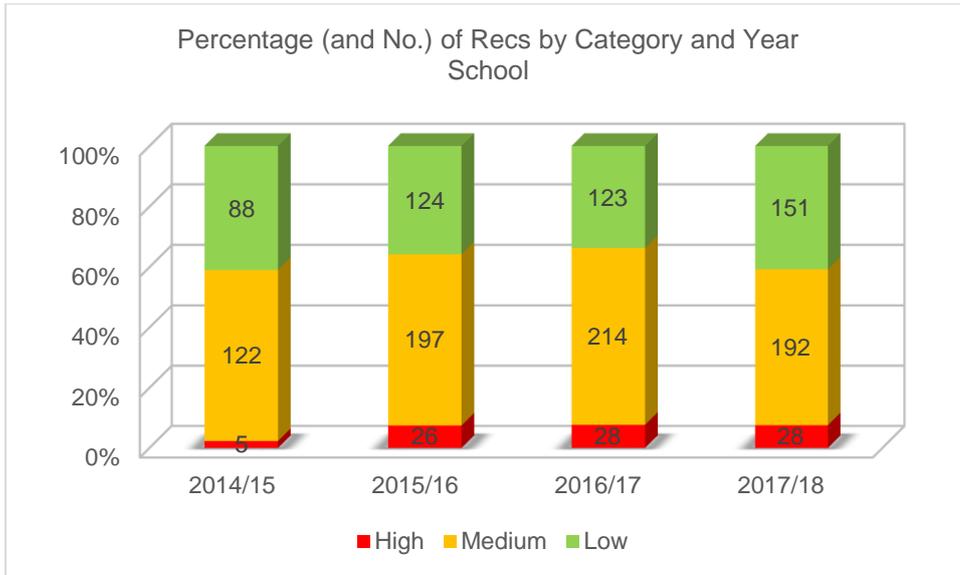


8.20.

Graph 5

Schools

- 8.21. Schools are unable to use the internal SharePoint site for reporting on completion of their actions and have to provide updates manually to the Children and Young People (CYP) directorate.
- 8.22. The graph below (no.6), details the number and percentage of recommendations made throughout the year. It shows the number of High recommendation remain the same as last year. There was a slight decrease in medium recommendations made, while the number of low recommendations made has increased.



Graph 6

Follow-up reviews

- 8.23. Since 2017/18, internal audit started to conduct a formal follow-up on corporate audits with a negative assurance opinion, or a consultancy reviews.
- 8.24. Schools continue to only have follow up reviews where there is a negative opinion. Only the High and Medium recommendations made are followed up in all reviews.

Corporate follow-up reviews

- 8.25. There were 12 corporate reports followed up. Internal Audit reports the outcome of these reviews to the Audit Panel and the Internal Control Board (ICB) every quarter. A list of follow-up reviews conducted can be found in Appendix 2
- 8.26. Of the corporate reviews conducted, internal audit found that out of the 92 recommendations reviewed,
 - 37 (40%) recommendations were implemented
 - 31 (34%) were in progress, and
 - 24 (26%) were not implemented.

School follow-up reviews

- 8.27. There was one school follow up conducted. It showed that out of the 33 recommendations reviewed:
 - 9 (27%) recommendations were implemented
 - 18 (55%) were in progress, and
 - 6 (18%) were not implemented.

Anti-Fraud and Corruption Team (AFACT)

- 8.28. AFACT is responsible for conducting and managing fraud investigations internally and of those using Council services. This work is conducted with support from the Council's Human Resources and Legal Services teams. This work arises from the need for the Council to ensure confidence in the administration of public funds.
- 8.29. This recognises that the undermining of public confidence that can result from the discovery of a fraudulent or corrupt act can inflict much greater and more widespread damage than just the act itself.
- 8.30. The number and nature of investigations concluded in the year and actions taken are reported to the ICB and Audit Panel annually. The annual A-FACT report is at appendix 5.

Risk Management

- 8.31. Corporate Resources is responsible for ensuring the Council has an effective risk management strategy and policy in place. These were updated in 2017/18 and approved by the Audit Panel. In addition, Directorate Management Teams (DMT) and the Executive Management Team (EMT) meet regularly to discuss risk, review the finances and monitor performance. Thereby enabling urgent matters to be escalated for action promptly outside the formal risk reporting cycle.
- 8.32. In addition to the risk registers for management purposes, the Mayor and Cabinet and Members are appraised on risk management via the quarterly management report which clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key risks.
- 8.33. Through the actions noted above the Council continues to adjust its approach to risk management, seeking to maintain the quality of risk reporting in a manner that is proportionate to the management time available to sustain this work. The risk management internal audit for 2017/18 received a Satisfactory assurance opinion.

Other sources of assurance

- 8.34. Evidence for the effective mitigation of risk and focus on improving internal control comes from other sources than the work of internal audit. These are taken into consideration for preparing the annual assurance opinion and planning the work of internal audit for future years. For example:
- 8.35. Internally service planning, performance reporting and financial monitoring are tools available to management.
- 8.36. In addition the level (number and seriousness) of H&S incidents reported and insurance claims made are monitored through the year. The Council also recognises that support to employees (communication, training, monitoring and challenge) around key corporate policies and processes is key to effective control and the efficient running of the organisation.

- 8.37. Externally inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of service practice and performance. For example the annual legal services accreditation or the Ofsted inspection of children with complex needs.

9. Issues relevant to the Annual Governance Statement (AGS)

- 9.1. From a review of the internal audit recommendations made in 2017/18 some common areas for improvement around internal controls were noted. This does not mean they are wrong all of the time everywhere. However, these points were noted through more than one audit or source of assurance during the year.

Budget Monitoring

- 9.2. Public sector austerity continues to impact all areas of the Council's work as services seek to do more for less for the eighth year in a row. And forecasts suggest this is likely to continue into the 2020s. Financial constraints are putting significant strain on services to adjust their spending and control arrangements to maintain good practice but in a manner proportionate to their changing priorities and available budget.
- 9.3. This was evidenced through: a number of overspending services; controls being done less frequently/missed; timely review and approval of budgets being delayed; system and procedure arrangements not keeping pace with changing business processes; and corporate processes (e.g. HR, Finance, performance, etc..) not always complied with.

Procurement and Contract Management

- 9.4. Contract management is still weak in some areas and the council needs a more consistent approach. Additional senior resource has been recruited in 2017/18 to help drive this challenge and more effective practices.
- 9.5. Procurement arrangements continue to improve but with improvements still required. This is part of a stronger commercial and procurement focus to be reviewed in 2018/19 to ensure progress is sustained.

Information Technology and Information Security.

- 9.6. During the latter part of the year, there were recurring issues with slowness of core applications / software, and more than usual downtime with a number of service outages. There have also been delays to a number of core IT projects and system improvement projects as part of the transformation programme.
- 9.7. Without the right tools for the job (or having them consistently), there is risk that officers find work-arounds that are inefficient and potentially insecure. The new requirements in 2018/19 of the GDPR legislation increase this risk.

Oracle Cloud implementation (Finance System)

- 9.8. The Council is implementing a new finance system (OracleCloud) which is not just a finance system but a full Enterprise Resource Planning (ERP), including HR and Payroll functions.
- 9.9. Internal audit worked on the development phases of the project in an advisory capacity to support the effective design of controls in the 'to be' processes.

However, the project was delayed and went live without there being time to do this work. For this reason and given the project risk, the internal audit work was concluded based on incomplete testing with a No Assurance opinion.

Financial control

- 9.10. While none of the core financial audits had a negative opinion this year, the main issues (suspense accounts, reconciliations, and budget monitoring) still remain, but are improving. However, with a significant and increasing number of re-occurring recommendations. It is anticipated that the OracleCloud system will replace and improve a number of controls.
- 9.11. As the Oracle Cloud and ASH debt management projects won't be fully implemented until 2018/19, some risks / processes continues to rely on manual workarounds and potentially impact the accuracy of financial monitoring information.

10. Statement of compliance with Public Sector Internal Audit Standards (PSIAS)

- 10.1. A self-assessment against the standards is required annually, and an external independent review of the internal audit service at least every five years. The next independent review is due in 2020/21.
- 10.2. The self-assessment for 2017/18 remains compliant the PSIAS. However, there are those areas where they will continue to be only partially met, rather than fully met. They are:
 - Independence of the HIA
 - Conducting Reviews where HIA has operational responsibilities
- 10.3. These issues are common among Local Authorities. As previously reported, the service has recognised the risk and put in place mitigations by giving the Internal Audit Manager unfettered access to the Chief Executive and the Chair of the Audit Panel for areas managed by the Head of Corporate Resources. This is detailed in the Audit Charter for details.

11. Quality improvement Plan (QIP) for Internal Audit.

- 11.1. The Internal Audit Service focus for 2018/19 is to continue to progress the strategy to strengthen the in-house team and use contractors for specialist pieces of work.
- 11.2. To help strengthen the in-house team, an audit management software package was procured, and will go live in 2018/19. The software will result in less duplication of work, saving on auditor days. It is also anticipated that the new OracleCloud system will facilitate better and more effective sample selection to support management and internal audit real time monitoring.

- 11.3. In addition, there is an action tracking module which will automatically remind officers when their actions are due. It will also enable schools' to update their actions directly, rather than rely on officers to manually chase and update.

12. Role of the Head of Internal Audit

- 12.1. CIPFA Statement on "The role of the Head of Internal Audit in public service organisations, 2010" states that the Head of Internal Audit role in a public service organisation is based on five principles:

- 1) Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments;
- 2) Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- 3) Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
- 4) Must lead and direct an internal audit service that is resourced to be fit for purpose; and
- 5) Must be professionally qualified and suitably experienced

- 12.2. The annual review of the Head of Internal Audit concluded that all of the above principles were met.

13. Legal Implications

- 13.1. There are no legal implications arising directly from this report.

14. Financial Implications

- 14.1. There are no financial implications arising directly from this report.

15. Equalities Implication

- 15.1. There are no specific equalities implications arising directly from this report.

16. Crime and Disorder Implications

- 16.1. There are no specific Crime and Disorder implications arising directly from this report.

17. Environmental Implications

- 17.1. There are no specific environmental implications arising directly from this report.

18. Background Papers

18.1. Internal Audit and A-FACT papers to the Audit Panel throughout 2015/16.

For queries on this report, please contact the Head of Corporate Resources on 020 8314 9114 or by email at david.austin@lewisham.gov.uk

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Corporate Audits

Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
Oracle Cloud	No Assurance	2	1	1	Data migration, Roles and responsibilities, Issues management, User Acceptance Testing, 3 rd party assurance and IT Application Controls	DRAFT
Catford Regeneration Partnership Ltd	Limited	2	3	1	Governance and Accountability	17/05/18
Health Visiting	Limited	4	5	-	Contract formalities, Contract monitoring and management reports, and payments	29/05/18
Monitoring of Child Care Providers	Limited	2	5	-	Contract and contract variations, and Contract monitoring and management reporting.	17/10/17
Pre Contract and Tendering	Limited	5	4	-	Pre-procurement arrangements, Evaluation of Tenders, and Contract Award and Notification of Bidders	24/11/17
Accounts Payable 16/17 (Core Financial Audit)	Satisfactory	1	2	3	Set up of new suppliers, Payments, Reconciliations, and Performance Indicators	19/04/18
Accounts Receivable 17/18 (Core Financial Audit)	Satisfactory	-	6	3	Completeness of income, Documentation and Authorisation, Income recording and Debt Recovery	19/06/18
Adoption Process	Satisfactory	-	8	-	Approval of Adoptive Parents, Adoption process and Data security	DRAFT
AIMS Applications	Satisfactory	2	2	1	User Access and Interfaces and Processes	19/01/18
Banking 17/18 (Core Financial Audit)	Satisfactory	3	1	1	Payments, Cheque printing and security, Feeder systems (access) and Reconciliations	22/03/18
Budget Setting and Monitoring 17/18 (Core Financial Audit)	Satisfactory	5	4	1	Budget Setting, Loading and Virements, Budgetary Controls, and Management Reporting	24/11/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
Capital Expenditure 17/18 (Core Financial Audit)	Satisfactory	-	3	2	Project Governance and Management, Payments, and Programme Budget and Expenditure Monitoring	10/01/18
ContROCC	Satisfactory	-	4	-	User Access Security, User Permissions (Segregation), Interfaces, Data input & output and Backup and Recover.	17/05/18
Direct Payments 17/18 (Core Financial Audit)	Satisfactory	-	5	1	Assessment and Payments, Utilisation Monitoring, and Budget Monitoring	22/03/18
Facilities Management - Contract Monitoring	Satisfactory	-	8	3	Contract Monitoring and Management	10/10/17
Freedom of Information and Data Protection Acts 17-18	Satisfactory	-	7	-	Adherence to policies, procedures, statutory and local requirements	06/02/18
Garden Waste Service	Satisfactory	1	7	5	Processing Applications, Waste Collection Service, Income Collection, and Dispute resolution.	05/01/18
Homelessness Applicants	Satisfactory	-	6	2	Decision Making Framework and Evidence	27/11/17
IR35 - Off Payroll Engagement	Satisfactory	-	2	1	Compliance with IR35 Legislation	09/11/17
Main Accounting 17/18 (Core Financial Audit)	Satisfactory	1	3	2	Financial Systems Administration, Feeder Systems, Journals and Reconciliations and Final Accounts	06/02/18
Monitoring of Lewisham Homes Management Agreement	Satisfactory	-	4	1	Contract Monitoring and Reporting	24/11/17
Main Grant Programme	Satisfactory	-	7	4	Bid Submissions, Grant Awards and Payments, and Monitoring and Reporting	28/06/18
Parking Contract	Satisfactory	1	4	3	Contract Monitoring and Performance Payments	27/11/17
Partnership Management - Libraries	Satisfactory	1	3	1	Monitoring new owners / responsible group for running the libraries	25/09/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
Payment to Adult Care Providers 17/18 (Core Financial Audit)	Satisfactory	-	8	1	DPA and Statutory Requirements, Set up of provider payments, Payments, Budgetary Control	27/04/18
Payments to Child Care Providers and Foster Carers 17/18 (Core Financial Audit)	Satisfactory	1	2	4	Payments, Budgetary Control, Exception Reporting	19/01/18
Pensions 17/18 (Core Financial Audit)	Satisfactory	-	10	1	Governance Arrangements, Contributions and Payables, Investments and Management Fees and Reconciliation	15/01/18
Procurement Cards 2017/18	Satisfactory	-	5	-	Card Administration and Procurement Card Expenditure	30/04/18
Reed Agency	Satisfactory	2	5	-	Approval and Payments, Clearance and Compliance and Contract Monitoring	26/06/18
Risk Framework	Satisfactory	-	7	2	Risk Policy & Strategy, Risk Identification and Evaluation process, and Risk Monitoring and Reporting	04/06/18
Small and Faith Fund Grants	Satisfactory	-	5	3	Bid Submissions, Grant Awards and Payments, and Monitoring and Reporting	28/06/18
Synergy Application	Satisfactory	1	3	-	Logic Security & User Access, Interfaces Management, Backup and Recovery and Data Quality	19/06/18
Adult Social Care Peer Review Action Plan	Substantial	-	2	4	Progress, Timescales and Evidence, and Monitoring and Updates	26/09/17
Business Rates (NNDR) 17/18 (Core Financial Audit)	Substantial	-	-	1	Setting of the Business rates, Billing, Liabilities, Discounts, Reliefs and Collection Recovery and Enforcement	13/03/18
Client Contributions for Care Provision 17/18 (Core Financial Audit)	Substantial	-	2		Eligibility and Financial Assessments, Recovery of Client contributions and Deferred Contribution Scheme	20/02/18

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
Concessionary Passes	Substantial	-	1	1	Monitoring of Blue Badges, Passes and Cards.	26/10/17
Council Tax 17/18 (Core Financial Audit)	Substantial	-	2	-	Setting of the Council Tax, Billing inc, Write offs, Refunds, Discounts, Reductions, Disregards and Liabilities, Valuation Office List and Data Protection	06/03/18
Governor Services	Substantial	-	1	-	Legislative, Organisational and Management Requirements, Service Level Agreements, Clerking, Training, Advice and Guidance, and Training, Advice and Guidance	05/06/18
Housing Benefit and Council Tax Reduction Scheme 17/18 (Core Financial Audit)	Substantial	-	1	1	Applications, Payments, Overpayment, Debt Recovery, System Reconciliation and Exception Reporting	28/02/18
IT Helpdesk	Substantial	-	3	2	Roles and Responsibilities, Registration of service calls and measurement of response and support	18/05/18
LGA Graduate Scheme	Substantial	-	2	1	Aims and Objectives, and Payments and Budgetary Controls	18/07/17
Non-Current Assets 17/18 (Core Financial Audit)	Substantial	-	1	1	Asset Management, Transfer of assets, and Reconciliation	05/03/18
Passenger Services	Substantial	-	1	-	Regulatory, Organisations and management responses, Vehicles, Drivers, Route Management and Income	18/05/18
Payroll 17/18 (Core Financial Audit)	Substantial	-	2	3	Starters and Leavers, Benefits, Deductions, Amendments and Payments	05/12/17
Treasury Management 17/18 (Core Financial Audit)	Substantial	-	2	-	Cash Flow Forecasting, Investments and Loans Recording, Unauthorised Access and Performance Monitoring and Reporting	06/12/17
GDPR Readiness	Consultancy	-	10	-	Compliance with GDPR	19/04/18

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
Multi-Agency Safeguarding Hub (CYP) Arrangements	Consultancy	1	7	3	Front Door (MASH), Placements, Contracts, and Performance	28/09/17
Performance Management and Service Planning	Consultancy	-	8	1	Performance Management Service Plans	21/07/17
Youth Offending Services	Consultancy	-	9	-	Service Improvement	06/02/18
Initial Contact, Information and Advice	Consultancy	-	5	2	Review of the Social Care Access Information Team	29/05/2018
Procurement Arrangements	Consultancy	2	5	3	Compliance with Council Requirements and Legislation, Value for Money and Procurement Activities	DRAFT
Troubled Families Programme – Claim Submissions (Phase 2 claims for year 2017-18)	Certifying Claim - No Issues				DCLG require internal audit to sample check the grant claim	n/a

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School Audits

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	All Saints Primary School	Substantial	-	3	11	Procurement, Income, Assets, Governance, Budget Monitoring, Banking, Payroll, Recruitment and Data Security.	06/03/18
SCH	Brindishe Lee Primary School	Substantial	-	6	7	As above	30/04/18

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Childeric Primary School	Substantial	-	3	8	As above	24/07/17
SCH	Eliot Bank Primary School	Substantial	-	-	2	As above	20/12/17
SCH	Gordonbrock Primary School	Substantial	-	1	1	As above	09/02/18
SCH	Greenvale Special School	Substantial	-	5	10	As above	10/10/17
SCH	Grinling Gibbons Primary School	Substantial	-	1	1	As above	19/04/18
SCH	Haseltine Primary School	Substantial	-	4	3	As above	28/09/17
SCH	Kelvin Grove Primary School	Substantial	-	8	4	As above	22/11/17
SCH	New Woodlands Special School	Substantial	-	3	2	As above	19/04/18
SCH	Perrymount Primary School	Substantial	-	7	6	As above	12/09/17
SCH	Sir Francis Drake Primary School	Substantial	-	9	6	As above	22/05/18
SCH	St Bartholomew's CE Primary School	Substantial	-	5	3	As above	19/04/18
SCH	St George's C of E Primary School	Substantial	-	1	2	As above	08/03/18
SCH	St John the Baptist	Substantial	-	5	3	As above	19/10/17
SCH	St Winifred's Catholic Primary School	Substantial	-	4	1	As above	02/05/18
SCH	St William of York Primary School	Substantial	-	6	1	As above	07/03/18
SCH	Baring Primary School	Satisfactory	3	11	3	As above	13/06/18

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Beecroft Garden Primary School	Satisfactory	-	16	4	As above	14/05/18
SCH	Brent Knoll School	Satisfactory	-	15	10	As above	25/01/18
SCH	Coopers Lane Primary School	Satisfactory	-	10	9	As above	14/03/18
SCH	Downderry Primary School	Satisfactory	-	9	7	As above	26/07/17
SCH	Elfrida Primary School	Satisfactory	-	12	6	As above	06/03/18
SCH	Holy Trinity CE Primary School	Satisfactory	-	9	11	As above	06/12/17
SCH	John Ball Primary School	Satisfactory	-	9	9	As above	26/09/17
SCH	St James Hatcham CE Primary School	Satisfactory	-	18	10	As above	01/05/18
SCH	St Saviour's RC Primary School	Satisfactory	-	12	10	As above	19/12/17

Appendix 2 – Follow up Review Conducted in 2017/18

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem-ented	In Progress	Not Implem-ented	Total
RRE	Prepaid Cards	Limited	17/03/17	05/10/17	-	3	5	8
RRE	Schools' Minor Works Programme	Limited	20/06/17	04/01/18	5	2	-	7
CUS	Accounts Payable 16-17	Limited	16/03/17	24/11/17	6	4	4	14
CUS	Accounts Receivable 16-17	Limited	18/05/17	17/01/18	2	5	2	9
CUS	Banking 16-17	Limited	18/05/17	06/02/18	4	3	2	9
CUS	Adult Social Care IT Backup and BCP	Limited	04/06/16	16/10/17	1	-	2	3
CUS	ICT Governance	Limited	11/04/17	11/01/18	7	-	-	7
CUS	Public Sector Network	Limited	01/02/17	17/01/18	1	1	-	2
COM	Safe Guarding - Section 42 Referrals	Limited	03/07/17	13/02/18	1	5	4	10
CYP	School Catering – Contract Monitoring	Limited	03/03/17	09/02/18	7	3	2	12
COM	Food Hygiene Safety and Standards	Satisfactory	27/05/16	30/10/17	1	4	-	5
CYP	Processes for Payment to Main Child Care Providers	Consultancy	14/06/16	30/10/17	2	1	3	6

Schools

Appendix 2 – Follow up Review Conducted in 2017/18

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Imple-mented	In Progress	Not Imple-mented	Total
SCH	Turnham Primary School	None	04/07/17	22/01/18	9	18	6	33
SCH								

Appendix 3 – Assurance Opinions Definitions

Assurance Opinion Definitions

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.

AUDIT PANEL		
Report Title	ANTI FRAUD AND CORRUPTION TEAM (A-FACT) UPDATE	
Key Decision	NO	Item No.
Ward	ALL	
Contributors	Head of Corporate Resources A-FACT Group Manager	
Class		Date: July 2018

1. Purpose of the Report

- 1.1. The purpose of this report is to present the Audit Panel with a review of the work of the Anti-Fraud and Corruption Team (A-FACT) for 2017-18.

2. Executive Summary

- 2.1. There are no major changes to report. The detail is provided in the body of the report for which the highlights are:

- There has been an increase in the number of employee related cases compared to last year. It was thought that last year's reduction was due to a smaller workforce so it is unclear at present what has caused the doubling of cases. It should be noted that the figures are still statistically low.
- The seconded Police Officer in the team has been pulled back by the Metropolitan Police. As a result the team no longer has an arrest capacity or an Accredited Financial Investigator. Whilst alternative arrangements have been made on a case by case basis it is reliant on goodwill and other organisations resources.
- A lack of experienced investigators has resulted in the team carrying vacancies. A proposal for a trainee role is being developed to address this.

3. Recommendations

- 3.1. It is recommended that the Internal Control Board note this report for information.

4. Special Investigations

- 4.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two years full year figures for reference

Appendix 4 – A-FACT annual report to Audit Panel

Summary of Special Investigations work	2017/18	2016/17	Change		2015/16	2014/15
	FY	FY	Number	%	FY	FY
b/f	24	8	16		45	30
New	141	130	11	8%	102	97
Closed	148	114	34		136	82
c/f	17	24	-7	-29%	11	45
Of which						
E'ee cases	15	13	2	15%	17	19
- resulting in action	10	6	4	67%	10	10
Other cases	133	101	32	32%	119	63
- resulting in action	96	53	43	81%	27	31

Employee Related cases

4.2 Of the 146 cases closed this year 15 related to employees and 10 of those resulted in action. These cases are included in the year to date figures shown below.

Analysis of employee fraud	2017/18	2016/17	Change		2015/16	2014/15
	FY	FY	Number	%	FY	FY
Dismissed/resigned & Convicted	2	0	2	100%	0	0
Convicted & recommended disc. Action	0	0	0	0%	2	2
Resigned/Dismissed incl agency staff	2	0	2	0%	1	1
Other disciplinary (incl not employed)	3	1	2	200%	2	2
Monies repaid or Goods returned	2	1	1	100%	2	2
Management action incl process review	1	2	-1	-50%	2	2
Identity or other issue cleared	0	1	-1	0%	1	1
Total	10	5	5	100%	10	10

4.3 The number of staff related cases requiring action has doubled in the last year (although back to a similar level to previous years). Two of these cases involved staff exploiting weaknesses in controls, one to make erroneous payments and one to retain equipment that had not been recorded as allocated to them. There have also been two cases where significant discrepancies have been identified during the recruitment processes,

Appendix 4 – A-FACT annual report to Audit Panel

one relating to employment history, the other the applicants evasion of Council Tax and non-payment of overpaid benefits facilitated by their changing name.

- 4.4 “Other Cases” include applications for support by those who have No Recourse to Public Funds, Blue Badge fraud, Council Tax fraud and reviews of operational processes to prevent or deter fraud. The actions taken are summarised in the table below. A big part of the rise in cases reflects the focused work done on Blue Badges in the year.

Analysis of Non Employee Cases 2017/18 FY	Total Cases	Fraud Proven/ Process review	Evidence provided to assist assessment/ Fraud Alert	Info verified/ Occ Check	Req for info	Passed to another dept	NFA
NRPF	11		3	7			1
Blue Badge	31	19					12
Identity or address verification	9		6	1			2
Applications for support	8	1	6	1			
Direct Payments for Care	6			4		1	1
Spec Invest Other cases	68	5	3	1	37		20
Total	133	27	18	14	37	1	36

- 4.5 Included in the fraud proven/process review total of 25 are 19 Blue Badge cases, as well as a false application for financial support for a family, four mandate frauds, a fraudulent application for Council Tax Reduction Scheme (CTRS) valued at £3.5k, misleading information being stated regarding companies tendering for work, and £17k being recovered from an erroneous payment.
- 4.6 A-FACT are undertaking more checks for other services across the council to confirm identity, address history and/or circumstances as part of an assessment of a claim for a service or support. As the assessment of these claims can be impacted by a number of factors we are now reporting on all cases where significant evidence is provided to assist with the application.
- 4.7 **Pre-employment Checks**
A-FACT support Human Resources by undertaking part of the Council’s recruitment checks. Each potential employee of the Council is required to complete a pre-employment check focusing on any issues relating to Council tax, benefits, rent and personal business interests which may cast doubt on the individual’s integrity or potential conflicts for their work going forward. This process also applies to agency staff.

Appendix 4 – A-FACT annual report to Audit Panel

Summary of pre-employment checks	2017/18	2016/17	Change		2015/16	2014/15
	FY	FY	Number	%	FY	FY
Checks completed	301	268	33	12%	317	270
Action taken	60	30	30	100%	35	25

The majority of cases where action was required relate to business interests. Either the Council was not previously aware of the interest or checks had to be undertaken to ensure no conflict of interest. This accounts for 47 cases. Two cases resulted in offers of employment being withdrawn due to inconsistencies being identified that could not be resolved, these two cases are included in the Special Investigations employee cases figures.

There have also been more cases of potential employers owing significant amounts in Council Tax etc. to the Council. Generally these are approved for employment providing a reasonable arrangement to pay the debt is made and adhered to.

Lewisham Homes

- 4.8 A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement which has now been extended for 2018/19. This is equivalent to half an investigator's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

5 Housing Application Investigations

- 5.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous three full year figures for reference.

Summary of Housing App Investigations	2017/18	2016/17	Change		2015/16	2014/15
	FY	FY	Number	%	FY	FY
b/f	22	2	20		19	38
New	50	125	-75	-60%	28	46
New - NFI (Deceased)	157					
Closed	60	105	-45	-43%	-45	-65
Closed - NFI (Deceased)	155					
Resulting in action	29	33	-4	-12%	25	42
Resulting in action from NFI deceased	155					

- 5.2 The 29 successful cases resulted in 25 cancelled applications for housing. Based on current Cabinet Office figures each represents an indicative savings of £18k. In total a value of £450,000. The remaining cases related to proving that four decant applications, two where the tenant was claiming to be resident (saving approx. £12k), one where the tenants had tried to inflate the size of the property required, and another where the tenant provided false documentation to support their family's application, when challenged they surrendered the tenancy.

Appendix 4 – A-FACT annual report to Audit Panel

5.3 A further 155 cases were removed from the register as data matching undertaken as part of the National Fraud Initiative found that the applicant was deceased but not classed as fraudulent, these are included in the cases closed figure.

5.4 One of the cases concluded recently involved a single parent who had applied as homeless however reviewing their accommodation history found that they had obtained a private tenancy based on their spouse's earnings. The estate agent provided full details which were substantiated and when challenged the applicant admitted they had lied to get a Council house.

6 DCLG/ RSL Partnership Cases

6.1 Since January 2012 A-FACT have worked with local housing partners to tackle fraud related to social housing.

Summary of DCLG Housing Investigations Work	2017/18	2016/17	Change		2015/16	2014/15
	FY	FY	Number	%	FY	FY
b/f (corrected 2016 b/fwd figure)	19	5	14		176	33
New	65	87	-22	-25%	76	269
Closed	40	63	-23		246	126
c/f	44	29	15	52%	6	176
Resulting in action	16	19	-3	-16%	16	38

6.2 There were 14 tenancies successfully recovered. The Cabinet Office have stated that the notional value of a social tenancy is now £75k on that basis this equates to a total saving to the Council of £1.05 million. The remaining two cases relate to successions where, following investigation, the property size was reduced from three to one bed. A further six cases have eviction dates in April.

6.4 One of the more interesting cases involved a property which had been sublet since the start of the tenancy in 2010. The investigation not only proved the sublet and recovered the tenancy but found that the tenant was employed in a position of trust with another housing provider. Their actions were reported to their employer and they resigned whilst disciplinary action was ongoing.

7 Local Government Transparency Code 2014

7.1 The Local Government Transparency Code requires all local authorities to publish data on their anti-fraud arrangements on at least an annual basis.

7.2 The data for 2017/18 is shown in the table below along with the two previous years for comparison.

Appendix 4 – A-FACT annual report to Audit Panel

Data required	2017/18	2016/17	2015/16
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require information) (England) Regulations 2014 or similar powers.	145	68	1
Total number of employees undertaking investigations and prosecutions of fraud	6	7	7
Total number of professionally accredited counter fraud specialists	6	6	6
Total amount spent by the authority on the investigation and prosecution of fraud	£313,559	£355,734	£336,153
Total number of cases investigated	424	282	428

8 Any other business

- 8.1 As in 2016/17, through 2017/18 it has been hard to recruit and retain investigation officers on temporary contracts (using remaining MHCLG grant) to progress housing work. This has in part impacted the lower numbers recorded for tenancies recovered as reported in section 6. In 2018/19, the service is therefore going to have a push on procurement fraud in contracts using more financial skills as well as maintaining the housing focus.
- 8.2 The contractual negotiations, along with all London Boroughs, continue in respect of joining the CIPFA Counter Fraud Hub. At this stage, subject to the contractual terms, Lewisham looks likely to join in the second wave in September / October 2018.

AUDIT PANEL		
Report Title	Internal Audit Update Report	
Key Decision	No	Item No. 7
Ward	ALL	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 12 July 2018

1. Purpose of the report

- 1.1. This report presents members of the Audit Panel with:
- Progress against the internal audit plans – corporate and schools
 - Internal audit charter for 2018/19,
 - Annual audit plans for 2018/19,
 - Annual Schools Forum report, and
 - Progress of implementation of internal audit recommendations.

2. Recommendations

- 2.1. It is recommended that the Audit Panel note the contents in this report, and approve both the Audit Plan for 2018/19 and the Internal Audit Charter.

3. Executive Summary

3.1. Progress against the corporate audit plan

With the exception of two reviews, all audit work is now finalised for 2017/18. One of these review is yet to be issued as a draft due to issues with extracting a report from the old finance system.

There were 25 reports finalised since the last meeting. There was no additional audit work required. There were three IT audits that were deferred to the 2018/19 plan. This was due to delays in the installation of software.

3.2. Limited, No Assurance, and Consultancy reports.

There one 'No Assurance' report, two Limited reports, and three consultancy reports issued since the last report.

3.3. High or Medium recommendations not agreed by management

The Executive Director for Customer Services agreed that two recommendations from the Fleet Vehicle review should be implemented, but with different compensating controls.

In addition, one recommendation from the Risk Framework was partially not agreed. The part of the recommendation not agreed, will go to the Internal

Control Board in July for a decision. The outcome will report to the audit panel at the next meeting.

3.4. Follow up reviews

There were no follow up reviews completed since the last meeting.

3.5. Management progress against recommendations made

The percent of overdue recommendations to open ones, is 41%. This is the highest percentage over the last five meetings. However, there have been technology issues impacting both internal audit and management and their ability to complete work on a timely basis.

The percentage of recommendations that are taking over 12 months to implement, is static at 30%.

3.6. Types of controls for recommendations made

All control areas currently reported on, have had recommendations made with the exception of separation of duties.

3.7. Schools - audit plan, progress on recommendations and follow-up reviews

All schools reports are now finalised, with 14 schools reports issued since the last meeting.

There were no follow-up reviews conducted.

The percentage of overdue recommendation that are overdue, has reduced to 41%.

3.8. Annual Audit Plans for 18-19

The final annual plans (corporate and schools') can be found in appendix one and five respectively.

The corporate plans are split into type, Core Financials, IT Contract and General. . They detail the audit areas, auditor days (not including management review), indicative scope, and link to the corporate risks.

3.9. Oracle cloud

The replacement finance system, Oracle Cloud, was launched in May 2018. The internal audit work planned in 2017/18 to support the project delivery in respect of new processes and controls could not be concluded in full due to project delays. The work is added to the 2018/19 audit plan.

3.10. Internal audit charter

The internal audit charter for 2018/19, can be found in appendix six. There are no significant changes from the 2017/18 charter.

3.11. Any other business

The audit management software is now being used for 2018/19 audits. The action tracking part of the software is still being tested.

The annual schools' forum report is attached in Appendix 7. This is the first year where no Limited or No Assurance opinion reports were issued for school audits. .

4. Background

- 4.1. Internal Audit is a statutory service. Its main priority is to provide management and members with independent and objective assurance on the control environment within the Council.
- 4.2. The internal audit service consists of an in-house team that is supported by external service providers.
- 4.3. This report details work as at the 22 June 2018, unless otherwise stated.

5. Progress against the corporate internal audit plan for 2017/18

- 5.1. With the exception of those reports listed below, all reports are now finalised as 2 July.
 - Adoption Process – Draft – Satisfactory
 - VAT Audit – not yet at draft. Delays in obtaining correct financial report is from the old oracle system has prevented this audit from being completed.
- 5.2. There were 25 audits finalised since the 28th February. The executive summaries for the Limited and Consultancy reports can be found in appendix 2.

Audit (Corporate)	Date of Final	Audit Opinion	Follow up due	Recs. Made		
				H	M	L
Procurement Arrangements	02/07/18	Consultancy	Dec 18	2	5	3
Oracle Cloud	02/07/18	No Assurance	Dec 18	2	1	1
Accounts Receivable 17-18 (Core Financial Audit)	19/06/18	Satisfactory	n/a	-	6	3
Main Grants Programme	28/06/18	Satisfactory	n/a	-	8	3
Small and Faith Grants	28/06/18	Satisfactory	n/a	-	6	2
Reed Agency	28/06/18	Satisfactory	n/a	-	6	1
(Synergy) Tribal System	19/06/18	Satisfactory	n/a	1	3	-
Accounts Payable 17-18 (Core Financial Audit)	19/04/18	Satisfactory	n/a	1	2	3
Banking 17-18 (Core Financial Audit)	22/03/18	Satisfactory	n/a	3	1	1
Business Rates 17-18 (Core Financial Audit)	13/03/18	Substantial	n/a	-	-	3
Catford Regeneration Partnership Ltd (CRPL)	17/05/18	Limited	Nov 18	2	3	1
Controcc System	17/05/18	Satisfactory	n/a	-	4	-

Audit (Corporate)	Date of Final	Audit Opinion	Follow up due	Recs. Made		
				H	M	L
Council Tax 17-18 (Core Financial Audit)	06/03/18	Substantial	n/a	-	2	-
Direct Payments (Core Financial Audit) 17-18	23/03/18	Satisfactory	n/a	-	5	1
General Data Protection Regulation Preparation	19/04/18	Consultancy	n/a	-	10	-
overnors Support	05/06/18	Substantial	n/a	-	1	-
Health Visitor Contract	29/05/18	Limited	Nov 18	4	5	-
Initial Contact, Information and Advice and Assessments	29/05/18	Consultancy	Nov 18	-	5	2
IT Helpdesk - Monitoring and escalation	18/04/18	Substantial	n/a	-	3	2
Non-Current Assets 17-18 (Core Financial Audit)	05/03/18	Substantial	n/a	-	1	1
Passenger Services	18/05/18	Substantial	n/a	-	1	1
Payments to Adult Care Providers 17-18 (Core Financial Audit)	26/04/18	Satisfactory	n/a	-	8	1
Payments to Care Provider and Foster Carers for Looked After Children 17-18 (Core Financial Audit)	15/03/18	Satisfactory	n/a	1	2	4
Procurement Cards	30/04/18	Satisfactory	n/a	-	5	-
Risk Framework	04/06/18	Satisfactory	n/a	-	7	2

5.3. Cancelled / Deferred

The three IT audits that were cancelled since the last meeting are being deferred to the 2018/19 audit plan. This is down to the implementation of the systems not yet being at a suitable stage where an IT audit would be beneficial. They are

- ASH Debtors System (including HB recovery)
- HR Oracle Cloud. and
- Payroll Oracle Cloud.

5.4. Additional

There was no identified additional assurance or consultancy work required.

6. Limited, No Assurance, and Consultancy Corporate reports

6.1. There were two consultancy reviews issued since the last report:

- General Data Protection Regulations (GDPR),
- Initial Contact, Information and Advice and Assessments, and
- Procurement Arrangements.

6.2. There were two Limited reports issued since the last meeting.

- Catford Regeneration Partnership Ltd (CRPL), and
- Health Visitor Contract.

6.3. There was one 'No Assurance' report issued

- Oracle Cloud - Migration

6.4. The executive summaries for these reports can be found in appendix 2.

7. High or Medium recommendations not agreed by management

7.1. Where management do not agree high or medium recommendation, the recommendation goes before the next Internal Control Board (ICB) for the final decision.

7.2. ICB decide if they accept the risk of not implementing or agree that it should be implemented. Where they agree it should be implemented, the recommendations are monitored in the normal way. Where ICB do not agree to implement the recommendation, they are then reported at the next Audit Panel meeting.

7.3. The two recommendations not agreed by management for the Fleet Vehicle Report are now agreed, with revised action plans put in place.

7.4. One recommendation from the Risk Framework review was only partially agreed. This recommendation will be referred to ICB in July for a decision and then reported to Audit Panel if necessary..

8. Follow-up reviews

8.1. Internal audit follow-up only those reports with a Limited or No Assurance opinion, or Consultancy review. This is done six months after the final report.

8.2. However, internal audit reserve the right to follow-up on any audit or any individual recommendation if required.

8.3. There were no follow up reviews conducted since the last report.

9. Management progress against recommendations made

Overdue, Re-occurring and reopened recommendations

- 9.1. The table below shows the last rolling year results for overdue, reopened, and reoccurring recommendations. It also shows the percentage of overdue recommendations to open ones as at the 22/06/18.
- 9.2. To accompany the table, appendix 3 lists the individual audits with recommendations that are either:
- Overdue (due date has passed)
 - Re-occurring core financial recommendations, or
 - Recommendations were re-opened at the time of the follow-up.

Month of meeting	Current no. of open recs	No. of overdue recs	No. of recs that have been re-opened	No of re-occurring core financial rec	Percentage of overdue recs to open
Jul 18	167	68	15	26	41%
Mar 18	159	54	23	15	34%
Dec 17	108	25	12	12	23%
Sep 17	162	54	18	22	33%
May 17	146	22	2	28	15%

- 9.3. Compared to the last period, this shows an increase on the number and proportion of overdue recommendations. This could be down to management not updating or updating but not amending the due date.
- 9.4. There were also some technology issues with the system running slowly which resulted in reminders being sent out only a week before, rather than the normal two - three weeks' notice. This may have delayed managers updates.
- 9.5. The increase in re-occurring recommendations is to be expected timing wise as the core financial audits are finalised at the end of the year. However, the increase in number is of concern as the action was agreed to correct for the previous finding and so should have been implemented.

Aged analysis report

- 9.6. This age analysis for recommendations is worked out by using the current due date for each open recommendation against the date of the final report.

Month of Meeting	No. of recs under 3 mths	No of recs 3 under 6 mths	No of recs from 6+ to 9 mths	No. of rec 9+ to 12 mths	No of recs 12+ to 18 mths	No of recs over 18+ mths	% of recs over 12 m
Jul 18	44	35	24	13	37	14	30%
Mar 18	59	26	11	16	30	17	30%
Dec 17	14	29	25	15	8	17	23%
Sep 17	48	32	41	10	24	7	19%
Jun 17	62	26	30	11	7	10	12%
Mar 17	30	27	12	31	19	6	20%

- 9.7. The table above shows that 30% of open recommendations are taking over one year to be completed. While static this is a high percentage and similar to the point about re-occurring recommendations noted above. There are four High recommendations that have taken over a year to implement (3 over 12 months, and 1 over 18 months).
- 9.8. Those recommendations taking over 12 months or more to implement are flagged by internal audit for discussion at the monthly DMT meetings.

10. Types of controls for recommendations made

- 10.1. The table below records the types of controls as they relate to High or Medium recommendations made in the reports issued since the last meeting.
- 10.2. Please note, the categorising of recommendation to control type can be subjective. Some recommendations may also cover more than one control issue. In addition, the same recommendation can be made in more than one audit (i.e. procedures), but will only show once in the table.

Control Type	Recommendation
Authorisation	<ul style="list-style-type: none"> Approval of the budget by members Write back batches to be produced and authorised Authorise invoices in line with scheme of delegation
Compliance / Legal / Statutory	<ul style="list-style-type: none"> Contracts should be in place with key professional services GDPR section of contract should be finalised and signed. Remind management of financial regulations around budgetary control.

Control Type	Recommendation
	<ul style="list-style-type: none"> • Card holders reminded that cards only used in line with approved transactions limits.
Information security / GDPR	<ul style="list-style-type: none"> • Communication Strategy to be agreed for the council to improve awareness of GDPR • Record of Processing Activity should be completed • Privacy notices should be reviewed in light of GDPR • Review consent in line with GDPR • Formally assign the roles of DP officer and Caldicott guardian. • Document the Lead Data Protection Supervisory Authority for international data processing • Gain assurances from the trust that create store and retain user health records • Staff should conduct the data protection training course
Governance	<ul style="list-style-type: none"> • Authorised signatory list should be stored on SharePoint for all relevant staff • Define the quorum of the meetings in the terms of reference. • Budget control system to be implemented • Document financial regulation guidelines • KPI should be clarified and reported. • Obtain from the trust that it has audited its practices against statements in NICE guidelines • Action to date in the risk register should be reinstated. • Partnership risk registers should be reviewed every six months at EMT and ICB
IT	<ul style="list-style-type: none"> • Password parameter settings should set / reviewed • User access is performed at least annually. • Backup and recovery of application should be done periodically and tested. • Teams SharePoint site should be upgraded to th last version.
Other	<ul style="list-style-type: none"> • Supplier reports should be generated and reviewed weekly • Investigate uncleared items and unidentified income. • Refund to be investigated as not showing on payers account. • Establish system to ensure care plans are reviewed regularly. • Budgetary reports should be signed and dated by management

Control Type	Recommendation
	<ul style="list-style-type: none"> • Spreadsheet should be provided by the trust to inform the council of the number of staff on the payroll. • Obtain a copy of the trusts insurance • Obtain a copy of the trusts BCP • Provided improved aged reports to improve analysis • Non statutory training for driver and attendance to be provided • Discharge notification forms are processed in a timely manner • Payment details to be set up on Controcc upon receipt of discharge notice. • Client death notifications to be communicated in a timely manner. • Budgets should be critically reviewed to ensure future budgets are appropriate. • Trust to provide monthly complaints report • Person to be made aware of potential financial assessment • Monitoring mechanism about activity to be introduced. • Process of populating the ASC system should be reviewed. • Procedure document updated to include those who fail to return statements and receipts • Training programmes to be put in place • Guidance to be sent out again to DMT re risk registers
Policy	<ul style="list-style-type: none"> • Information Management Policies should be reviewed in a timely manner • Obtain trusts CYP safeguarding policy.
Procedure	<ul style="list-style-type: none"> • Managers to inform transaction team of leavers • DD agreements to be signed by users • AP2 forms to be completed in a timely manner • Procedures for handling subject access request to be reviewed • Data breach procedure to be reviewed • Clerking handbook to be updated regularly. • Training and guidance on how to approach assessments • Procedures to be updated the change in targets of call back timeframes
Reconciliation	<ul style="list-style-type: none"> • Reconciliations to be done in a timely manner • Reconciliations to reviewed by second officer

Control Type	Recommendation
	<ul style="list-style-type: none"> Reconciliations to be prepared and checked in a timely manner Variations should be investigated promptly Reconciliations should be signed and dated by reconciler and reviewer.
Separation of Duties	None this time.

11. Progress against schools' internal audit plan

11.1. All the reports are finalised for the schools' audit plan for 2017-18. This is the first year where there were no Limited or No Assurance reports were issued for schools.

11.2. There were 14 school audits finalised since the last meeting.

Audits (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
All Saints CE Primary	06/03/18	Substantial	-	3	11
Baring Primary	13/06/18	Satisfactory	3	11	3
Beecroft Garden Primary	14/05/18	Satisfactory	-	16	4
Brindishe Lee Primary	30/04/18	Substantial	-	6	7
Coopers Lane Primary	14/03/18	Satisfactory	-	10	9
Elfrida Primary	06/03/18	Satisfactory	-	12	6
Grinling Gibbons Primary	19/04/18	Substantial	-	1	1
New Woodlands	12/04/18	Substantial	-	3	1
Sir Francis Drake Primary	22/05/18	Substantial	-	9	6
St Bartholomew's CE Primary	19/04/18	Substantial	-	5	3
St George's CE Primary	08/03/18	Substantial	-	1	2
St James' Hatcham CE Primary	01/05/18	Satisfactory	-	18	10
St William of York Catholic Primary	07/03/18	Substantial	-	6	1
St Winifred's Primary Catholic Primary	02/05/18	Substantial	-	4	1

School Recommendations

11.3. The table below shows the status of open High and Medium school recommendations as at the 22/06/18. The percentage of overdue to open recommendations is 41%, which is an improvement compared to the last two meetings.

11.4. The status of the individual schools were they are overdue can be found in appendix 4.

Month of meeting	Current no. of open recs	No. of overdue recs	Percentage of overdue recs to open
Jul 18	142	65	46%
Mar 18	99	60	61%
Dec 17	143	87	61%
Sep 17	153	70	46%
May 17	141	82	58%

School follow up reviews

11.5. There were no school follow up reviews issued since the last report.

12. Audit Plans for 2018-19

12.1. The draft plan was reported to the Panel in March. Internal audit are now presenting the plan update for more detailed. The corporate plan is in Appendix 1 (schools is in appendix 5). The table includes, the audit areas to be reviewed, audit days, indicative scope, expected timing or due date, and link to corporate risk register or reason for conducting the review.

12.2. The Audit Panel are asked to approve both the corporate and school plans for 2018/19.

Corporate Plan

12.3. The corporate plan is made up of 753 days. This is broken down by:

- 220 - Core financial days
- 65 - IT days
- 241 - General
- 49 - Contract
- 5 - Grant days
- 100 - Management review
- 59 - Contingency
- 14 - Follow up work

12.4. The number of reports due are 56 audit reports and 7 follow-up reviews.

12.5. The current split between in-house and contractor is 564 to 237 respectively, (not including management time). Any changes to the plan will be reported to the Audit Panel in the usual way.

School Plan

12.6. The schools' plan 148 days with 27 schools being audited. The split:

- 12 - Secondary (includes all through schools)
- 1 - Special school
- 1 - Nursery
- 13 - Primary schools

12.7. The in-house team will conduct all the school audits in 2018/19.

13. Oracle Cloud

13.1. The project to move the Council's financial system from Oracle R12 to their new cloud version and integrate HR and Payroll functions on Oracle (from a separate, ResourceLink system) is underway.

13.2. The project is running behind schedule, in particular due to delays in data migration and testing. This caused the finance switch over date to be put back to start in May and conclude in July. The Payroll switch over date is still to be confirmed subject to parallel running over the summer of 2018. It has also increased the risk of errors or teething troubles as the lack of data in the system limited the amount of service user testing able to be done.

13.3. With the project behind schedule internal audit has not been able to complete their planned work to support the implementation. Internal audit commented on the system controls at the early stages of the project. However, without data in the system and documented 'to be' business processes for those operating the system, internal audit have not yet been able to review or test the wider control environment for Oracle Cloud – finance, HR or payroll. The conclusion on this work in the project is therefore No Assurance as it could not be completed. The work, along with balance transfers, will now be added to testing in the live environment for 2018/19.

14. Internal audit charter

14.1. Members are asked to approve the Internal Audit Charter for 2018/19, which can be found in Appendix 6. There are no significant differences from the 2017/18 internal audit charter.

15. Any other business

15.1. The new Audit Management Software system is now live, and is being used for the 2018/19 audit work. The way the system works means that there will be some presentational changes to the audit reports.

15.2. The action tracking is installed, but it is still being tested. Once happy that it is working how it is intended, it will be rolled out to both management and schools.

15.3. The School's forum report (see appendix 7), went to the School Forum on the 21st June. This is the first year where no schools' had a Limited or No Assurance Opinion.

16. Legal implications

16.1. There are no legal implications arising directly from this report.

17. Financial implications

17.1. There are no financial implications arising directly from this report.

18. Equalities implications

18.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010

19. Crime and disorder implications

19.1. There are no crime and disorder implications arising directly from this report

20. Environmental implications

20.1. There are no specific environmental implications arising directly from this report

21. Background papers.

21.1. There are no background papers.

If there are any queries on this report, please contact:

David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Core Financials	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Accounts Payable 18-19	Core Financial	20	<ul style="list-style-type: none"> • Set up of new suppliers and bank amendments, Payment of invoices • Reconciliations, • BACS and Non BACS payments, • Authorisation / separation of duties / access • Monitoring of PIs. 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Accounts Receivable and Debt Recovery 18-19	Core Financial	20	<ul style="list-style-type: none"> • Raising and cancellation of invoices • Debt recovery • Write offs • Reconciliations • Authorisation / separation of duties / access 	Due Qrt 3	Loss of Income to the Council
Banking 18-19	Core Financial	12	<ul style="list-style-type: none"> • Cheque and BACS security • Internet and other payment types • Suspense / holding accounts • Reconciliations • Direct debits 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Budget Setting and Monitoring 18-19	Core Financial	10	<ul style="list-style-type: none"> • Budget Setting • Budgetary controls • Management reporting 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Core Financials	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Business Rates 18-19		10	<ul style="list-style-type: none"> • Setting of the Business rates, • Billing • Voids • Liabilities, • Discounts, Reliefs • Collection Recovery and Enforcement • Write offs and Refunds 	Due Qrt 3	Loss of Income to the Council
Capital Expenditure 18-19		15	<ul style="list-style-type: none"> • Project Governance and Management, • Payments, and Programme Budget • Expenditure Monitoring 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Client Contribution for Care Provision 18-19		12	<ul style="list-style-type: none"> • Eligibility • Financial Assessments • Recovery of Client contributions • Deferred Contribution Scheme 	Due Qrt 3	Loss of Income to the Council
Council Tax 18-19		15	<ul style="list-style-type: none"> • Setting of Council Tax • Billing and Liabilities • Valuation Office List • Write offs & Refunds • Discounts, Reductions and Disregards • Collection, including recovery action 	Due Qrt 3	Loss of Income to the Council

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Core Financials	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Direct Payments 18-19	Core Financial	13	<ul style="list-style-type: none"> • Assessment and Payments • Monitoring of returns • Monitoring of clients payments overseen by the council • Recovery of overpayments 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Housing Benefit and Council Tax Reduction Scheme (CTRS) 18-19	Core Financial	15	<ul style="list-style-type: none"> • Applications and assessments • Payments • Overpayments • Debt Recovery • Reconciliation • Exception Reporting • Appeals • Discretionary Housing Payments • Changes to BACS • Access to system / separation of duties 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Main Accounting 18-19	Core Financial	12	<ul style="list-style-type: none"> • Reconciliations • Access to system • Feeder systems • Journal • Final accounts 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Core Financials	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Non-Current Assets 18-19	Core Financial	10	<ul style="list-style-type: none"> • Asset Management • Additions, transfer and disposal of assets • Reconciliations 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Payments to Adult Care Providers 18-19	Core Financial	12	<ul style="list-style-type: none"> • Payments • Assessments • Provider set up • Reconciliations • Budgetary Control 	Due Qrt 3	Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams
Payments to Child Care Provider and Foster Carers for Looked After Children 18-19	Core Financial	12	<ul style="list-style-type: none"> • Payments • Assessments • Budget Monitoring • Data Sharing 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Core Financials	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Payroll 18-19	Core Financial	12	<ul style="list-style-type: none"> • Payments • Reconciliations • Starters and Leavers • Benefits • Deductions • Amendments • BACS controls 	Due Qrt 3	Financial Failure and inability to maintain service delivery within a balanced budget
Pensions and Investments 18-19	Core Financial	12	<ul style="list-style-type: none"> • Contributions • Payable • Leavers and Starters, including Auto Enrolment • Transfers • Pension Board • Investments and Management Fees • Reconciliations 	Due Qrt 3	Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams
Treasury Management 18-19	Core Financial	8	<ul style="list-style-type: none"> • Cash Flow / Forecasting • Investments • Loans • Performance Monitoring • Reconciliations. 	Due Qrt 3	Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - IT Audits	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Adult Care System (ACS) interface with Financial System	IT	5	Review the technical changes made to (Liquid logic Adults' Social Care System (LAS) and its interface with Controcc (finance system)	TBC	ICT not fit for purpose/does not meet business needs
ASH - Debt recovery system	IT	6	To review the controls and security around the IT system for debt recovery, including Housing Benefit recover.	TBC	ICT not fit for purpose/does not meet business needs
I- casework – complaints system	IT	6	To review the new Icasework IT system for complaints for security and access permission.	TBC	ICT not fit for purpose/does not meet business needs
New Phone System and its Business Continuity Plan (BCP)	IT	8	To review the new Automatic Call Distribution (ACD)	TBC	ICT not fit for purpose/does not meet business needs
Office 365 and SharePoint	IT	8	To review the security and access to office 365 and SharePoint	TBC	ICT not fit for purpose/does not meet business needs
Oracle Cloud - Finance	IT	7	To continue with the IT testing from 17/18 audit review, to include comparison of amounts from one system to another.	Qrt 2	ICT not fit for purpose/does not meet business needs
Oracle Cloud - HR	IT	7	Pre and post implementation review.	Qrt 2 / 3	ICT not fit for purpose/does not meet business needs
Oracle Cloud - Payroll	IT	7	Pre and post implementation review.	Qrt 2 / 3	ICT not fit for purpose/does not meet business needs

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - IT Audits	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Robotics - HB system	IT	5	If implemented, to review the security of the implementation of robotics in the HB system	Qrt 2 earliest	ICT not fit for purpose/does not meet business needs
Self Service IT processes	IT	6	To review the BCP, ease of access and security of the council's self-service systems	TBC	ICT not fit for purpose/does not meet business needs

Audit Area – Contract audits	Type of audit	Days	Indicative Scope	Status	Link to corporate risk
Peelson Street Project	Contract	12	To review the project management, including financial, letting of contracts, milestones, and reporting.	TBC	Failure to manage suppliers and procurement programmes
Contract Management	Contract	15	To review the contract management across selected contract management	TBC	Failure to manage performance leads to service failure
Tendering / Procuring contracts and Supplier Resilience	Contract	12	To review the pre contract stage of the procurement process. To include a review the framework on how the council ensures current supplier (major) have the resilience to continue to provide services.	TBC	Failure to manage suppliers and procurement programmes
Waste Management (Domestic) - Contract Monitoring.	Contract	10	To review the contract monitoring for the domestic waste contract.	TBC	Failure to manage performance leads to service failure

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - General audits	Type of audit	Days	Indicative Scope	Status	Link to corporate risk / reason for review
Apprenticeship levy, including schools	General	12	To review how the apprenticeship levy (training) and is being used within the council.	Fieldwork started	Respond to legislative change
Business Continuity Plans (BCP) for core services	General	12	Part of a rolling plan of BCP and Disaster Recovery areas.	Qrt 4	Failure to contain impacts of emergency
Bereavement Services	General	10	To review the framework surrounding the bereavement services including payments and income.	ToR Issued	Failure to manage performance leads to service failure
Child in Need (CIN) arrangements	General	10	To review the framework of CIN.	TBC	Failure in Child Safeguarding
Complaints (Corporate) Framework	General	10	To review the complaints framework for dealing with corporate complaints.	TBC	Information Governance Failure
Disability Facilities Grant (DFG)	General	10	To review the process of the grant from initial application to approval / monitoring of spend.	TBC	Failure to manage suppliers and procurement programmes
Deprivation of Liberties Safeguards (DoLS)	General	10	To review the council's arrangements for DoLS arrangements.	Fieldwork started	Serious Adult Safeguarding concerns
Early help	General	10	To review the framework around Early Help	TBC	Failure in Child Safeguarding
Fostering Arrangements	General	10	To review the processes and controls for recruitment checks and ad-hoc payments.	TBC	Failure in Child Safeguarding

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Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - General	Type of audit	Days	Indicative Scope	Status	Link to corporate risk / reason for review
Hand over from Hospital Discharge Neighbourhood team	General	10	A review the process the process from the NHS to the council responsibilities.	Entry meeting held	Serious Adult Safeguarding concerns
Health and Safety (corporate)	General	10	Scope to be agreed due to potential change to the structure.	TBC	Head of Audit's Area. (Reviewed as per Audit Charter)
Homecare Service	General	10	To review payments, monitoring of outcomes and performance indicators. (Potentially a contract audit)	TBC	Serious Adult Safeguarding concerns
Implementation of General Data Protection Regulations (GDPR)	General	10	To review the implementation of the GDPR across the council and schools.	TBC	Information Governance Failure
Multi Agency Safeguarding Hub (MASH) – for Adults	General	10	To review the structure and governance arrangements and information sharing protocols in the newly formed adult MASH team	TBC	Serious Adult Safeguarding concerns
Planning Control	General	10	To review the framework of the planning control department.	TBC	Respond to legislative change
Pooled Budgets and Better Care Fund	General	10	To review the governance and monitoring of pooled budgets. To include section 75 monies.	TBC	Financial failure unable to maintain delivery within balanced budget
Recruitment Process	General	10	To review the process from Departmental Expenditure Panel (DEP) to appointment of staff and issue of contracts.	TBC	Maintain sufficient management capacity & capability

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - General	Type of audit	Days	Indicative Scope	Status	Link to corporate risk / reason for review
Rogue Landlords	General	10	To review the framework of rogue landlords. Including how to identify them, process of resolving issues including any legal action.	TBC	Respond to legislative change
School trading Website	General	10	To review the new trading website, for access, usability and current information.	Entry meeting held	Information Governance Failure
Schools Finance	General	10	To review the framework, support and advice of the school finance team. - look at how they work out the funding, create the financial regulations and scheme of delegation, and process returns.	TBC	Unforeseen expenditure/loss of income from funding streams
Transparency Act Adherence	General	10	To review the how the council complies with the transparency code, both statutory and recommended. Including any new / upcoming changes.	ToR sent	Information Governance Failure
Performance Management Framework for Child Social Care (CSC)	General	12	To review the new framework for CSC performance management.	TBC	Governance failings implementing service changes
Special Educational Needs and Disabilities (SEND) / Children with Complex Needs Service (CWCNS)	General	12	To review the process / framework surrounding the recent SEND legislation, and CWCNS. Potentially separate audits.	TBC	Failure in Child Safeguarding

Appendix 1 – Corporate Audit Plan 2018-19

Audit Area - Grants	Type of audit	Days	Indicative Scope	Status	Reason for review
Support for Families Programme-Grant claims	Grant	5	Statutory requirement that IA verifies the claims.	Ongoing	Ministry of Housing, Communities and Local Government (MHCLG) requirement



Overall Internal Audit Assurance Opinion	▲ Limited	Risk Areas				
<p>★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).</p> <p><u>Introduction and Terms of Reference (ToR)</u></p> <p>The background for this internal audit is included in the ToR at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.</p> <p><u>Key findings</u></p> <ul style="list-style-type: none"> • There are no contracts in place with providers of key professional services; • The meeting quorum is not defined for the Catford Regeneration Partnership Board meetings; • There are no documented financial regulations for performing financial transactions; • There is no effective budgetary control system in place; and • The 2017/ 18 annual budget is not evidenced as approved by the Council. <p><u>Areas that worked well</u></p> <ul style="list-style-type: none"> • The CRPL 2017/18 Business Plan was approved by the Mayor and Cabinet at the meeting held on 10 May 2017 and approved by the Full Council in its meeting held on 17 July 2017; • The Terms of Reference of the Catford Regeneration Partnership Board is defined; • There is regular reporting on the CRPL's key activities to the Catford Regeneration Partnership Board (CRPB); and • The CRPL's accounts as at 31 March 2017 was externally audited. 		H	M	L		
		▲	1. Governance	1	1	1
		▲	2. Accountability	1	2	-
Total		2	3	1		
<p><u>Monitoring of recommendations</u></p> <p>Officers are required to provide progress updates on High or Medium recommendations on the dedicated recommendation site.</p>						
<p><u>Changes to the scope</u></p> <p>This audit was conducted in line with the agreed Terms of Reference.</p>						



Executive Summary	Areas where recommendation are made	H	M	L												
<p><u>Introduction and Terms of Reference (ToR)</u></p> <p>The background for this consultancy review is included in the ToR at the end of this report.</p> <p><u>Areas where improvement to controls / processes are suggested</u></p> <ul style="list-style-type: none"> There was one case where it was not evidenced that a strength based assessment had been thoroughly undertaken, to confirm all circumstance such as family and other local resources. Therefore, the call progressed into adult social care when it should not have done. An acceptable timeframe for a screening call back was not documented within the practitioner procedures and guidelines. It was stated by the Operational Manager for SCAIT that 10 days was an acceptable timeframe. However, this has not been agreed. Out 19 cases, there were six where there was potential that a financial assessment may be required. However, of the six cases (100%) it was not documented that this had been discussed with the caller. The Social Care Access Information Team (SCAIT) activity was not being accurately monitored and reported. For example, in February 2018 SCAIT call records show that there were 1459 calls answered by SCAIT. This does not tally up with the Adult Social Care (ASC) Dashboard which states that there was 1069 contacts in February 2018. There was also an issue with the accuracy of the ASC Dashboard. For example, other call types that SCAIT were not involved with, such as the Deprivation of Liberty (DOLS), were being reported as SCAIT activity. 	<table border="1"> <tr> <td data-bbox="1205 343 1861 403">1. Initial Contact</td> <td data-bbox="1861 343 1933 403">-</td> <td data-bbox="1933 343 2007 403">2</td> <td data-bbox="2007 343 2069 403">2</td> </tr> <tr> <td data-bbox="1205 403 1861 464">2. Outcomes</td> <td data-bbox="1861 403 1933 464">-</td> <td data-bbox="1933 403 2007 464">3</td> <td data-bbox="2007 403 2069 464">-</td> </tr> <tr> <td data-bbox="1205 464 1861 518">Total</td> <td data-bbox="1861 464 1933 518">-</td> <td data-bbox="1933 464 2007 518">5</td> <td data-bbox="2007 464 2069 518">2</td> </tr> </table>	1. Initial Contact	-	2	2	2. Outcomes	-	3	-	Total	-	5	2			
1. Initial Contact	-	2	2													
2. Outcomes	-	3	-													
Total	-	5	2													
	<p><u>Areas that worked well</u></p> <ul style="list-style-type: none"> Information about the contact was recorded adequately within case notes in all cases. Signposting was done well, including providing information and directing callers to other agencies where appropriate. A senior had provided authorisation, in all cases where it was required. Safeguarding procedures were followed in all cases where required. Out of a sample of 19 calls, 13 (68%) were dealt with by SCAIT and did not progress further into Adult Social Care. Out of the remaining six calls, only one progressed when it should not have the other five progressed appropriately. <p><u>Monitoring of recommendations</u></p> <p>Officers are required to provide progress updates on High or Medium recommendations on the dedicated recommendation site.</p> <p><u>Follow up reviews</u></p> <p>A follow up review will take place six months of this report.</p> <p><u>Changes to the scope</u></p> <p>This audit was conducted in line with the agreed Terms of Reference.</p>															



Overall audit assurance opinion	▲ Limited	Risk Headings			
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).			H	M	L
<u>Introduction and Terms of Reference (ToR)</u>		▲	1	-	-
The background for this internal audit is included in the ToR at the end of this report. The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.		▲	3	5	-
The Early Intervention Joint Commissioner responsible for monitoring the Health Visiting contract started in post on 17 November 2017, after his predecessor had left. The Contract for the Provision of Health Visiting Service 2017-2020' commenced 1 April 2017. The cost of the contract in 2017/18 was £4.6m.		★	-	-	-
<u>Key findings</u>			4	5	0
<ul style="list-style-type: none"> A copy of the signed Health Visiting contract was not available at the time of audit, although Internal Audit was subsequently informed that this was signed on behalf of the Lewisham and Greenwich Trust on 1 May 2018 and was with the Council's Legal Services for sealing. 		<u>Areas that worked well</u> <ul style="list-style-type: none"> Appropriate contract payments were being made in a timely manner. Monthly contract meetings, which commenced on 16 February 2018, were being held. 			
<ul style="list-style-type: none"> The Council was unable to demonstrate appropriate assurance that the Lewisham and Greenwich Trust: <ul style="list-style-type: none"> had appropriate recruitment processes and adequate staff to perform the service. had appropriate insurance cover. creates, maintains, stores and retains appropriate Service User Records. had conducted an audit of its practices against quality statements regarding data sharing set out in NICE Clinical Guideline 138. 		<u>Monitoring of recommendations</u>			
<ul style="list-style-type: none"> The copy of the Lewisham and Greenwich Trust 'Safeguarding Children and Young people Policy' held was due for review in April 2017. 		Officers are required to provide progress updates on High or Medium recommendations on the dedicated recommendation site.			
<ul style="list-style-type: none"> The Lewisham and Greenwich Trust had not provided the Council with reports of complaints. 		<u>Follow-up review</u>			
<ul style="list-style-type: none"> The quarter 3 2017-18 KPI report was incomplete and the Council was unable to demonstrate whether assurance over the veracity of the figures reported in the KPI's was being obtained. 		This report will not have an automatic follow up review. However, internal audit retain the right to conduct a follow-up review at a later stage if required.			
		<u>Changes to the scope</u>			
		This audit was conducted in line with the agreed Terms of Reference.			



Overall Internal Audit Assurance Opinion	Not Applicable - Consultancy	Risk Areas			
			H	M	L
<p>★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).</p>		1.	-	10	-
		Total	-	10	-
<p><u>Introduction and Terms of Reference (ToR)</u></p> <p>The background for this consultancy work is included in the ToR at the end of this report.</p> <p>In addition, it should be noted that an action plan is in place to monitor GDPR readiness progress. Most actions on the plan are recorded as last reviewed in October 2017 and none are yet marked as completed.</p> <p>However, Management have stated that they should all be completed by May 2018. An Information Governance Steering Group has also been formed and had its first meeting on 13 December 2017.</p> <p>The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.</p> <p><u>Key findings</u></p> <ul style="list-style-type: none"> • The GDPR communication strategy for the Council has not been agreed; • The completion of the Record of Processing Activity (ROPA) is ongoing. Sharing Agreements have not been agreed; • Privacy notices in use across the Council are being reviewed; • Relevant policies and procedures are being reviewed and are not currently in line with the GDPR; • The procedure in place for handling subject access requests is not currently in line with GDPR requirements; • The identification of the lawful basis for processing personal data is ongoing and not complete; <p>The review of how the Council handles consent in line with GDPR requirements is ongoing and not complete;</p>		<p>• The procedure in place for handling data breaches is not in line with GDPR requirements</p> <p>• The roles of the Data Protection Officer and the Caldicott Guardian are not evidenced as formally assigned; and</p> <p>• The identification of the Council’s international data processing is ongoing and not complete.</p> <p><u>Follow up reviews</u></p> <p>A follow up review will take place in six months after the final report.</p> <p><u>Monitoring of recommendations</u></p> <p>Officers are required to provide progress updates on High or Medium recommendations on the dedicated recommendation site.</p> <p><u>Changes to the scope</u></p> <p>This consultancy work was conducted in line with the agreed Terms of Reference.</p> <p><u>Areas that worked well</u></p> <ul style="list-style-type: none"> • There is an Information Governance Steering Group in place with an aim to support services in Lewisham to prepare for the upcoming changes, and carry out the actions and requirements to become GDPR compliant by 25th May 2018; • The Information Governance Team maintains a spreadsheet that tracks activities required to achieve compliance with the GDPR; • GDPR training is being rolled out across the Council. 			



Overall Internal Audit Assurance Opinion	Not Applicable - Consultancy	Risk Areas																				
			H	M	L																	
<p>★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).</p> <p><u>Introduction and Terms of Reference (ToR)</u></p> <p>The background for this consultancy work is included in the ToR at the end of this report.</p> <p>The findings in this report are by exception. This means only those areas where further management action is required to improve internal control are mentioned.</p> <p><u>Key findings</u></p> <ul style="list-style-type: none"> • The Service Level Agreement with LB Lambeth for provision of procurement support services expired on 31 October 2017 and did not specify the number of hours of support to be provided. • Agendas and minutes for Commissioning and Procurement Board meetings were only available from February 2018. • The total amount of procurement support provided to Council staff was only 1.4 FTE. • There was no procurement helpline service available to Lewisham staff. • Regular training sessions on general procurement matters had not been provided to Lewisham staff. • Many members of the Capital Programme Delivery Team had not received training on use of the London Contracts Portal. • There were no arrangements for sharing procurement knowledge between directorates. • The Procurement Handbook did not provide sufficient information for certain areas (e.g. Social Value Method Statements) and did not 		<table border="1"> <tr> <td data-bbox="1052 336 1144 427">1.</td> <td data-bbox="1144 336 1798 427">Compliance with Council Requirements and Legislation</td> <td data-bbox="1798 336 1859 427">-</td> <td data-bbox="1859 336 1935 427">3</td> <td data-bbox="1935 336 2004 427">-</td> </tr> <tr> <td data-bbox="1052 427 1144 485">2.</td> <td data-bbox="1144 427 1798 485">Value for Money</td> <td data-bbox="1798 427 1859 485">2</td> <td data-bbox="1859 427 1935 485">2</td> <td data-bbox="1935 427 2004 485">1</td> </tr> <tr> <td data-bbox="1052 485 1144 542">3.</td> <td data-bbox="1144 485 1798 542">Procurement Activities</td> <td data-bbox="1798 485 1859 542">-</td> <td data-bbox="1859 485 1935 542">-</td> <td data-bbox="1935 485 2004 542">1</td> </tr> <tr> <td colspan="2" data-bbox="1052 542 1798 600">Total</td> <td data-bbox="1798 542 1859 600">2</td> <td data-bbox="1859 542 1935 600">5</td> <td data-bbox="1935 542 2004 600">3</td> </tr> </table> <p>explain the purpose of templates in the Procurement Documents Library.</p> <ul style="list-style-type: none"> • The identification of contracts due for re-procurement relied on manual processes. • A contracts library containing copies of all signed contracts was not in place. <p><u>Monitoring of recommendations</u></p> <p>Officers are required to provide progress updates on High or Medium recommendations on the dedicated recommendation site.</p> <p><u>Changes to the scope</u></p> <p>This consultancy work was conducted in line with the agreed Terms of Reference.</p> <p><u>Areas that worked well</u></p> <ul style="list-style-type: none"> • Lambeth procurement staff provided under the SLA were considered to be of high quality. • The Lewisham Procurement Handbook was considered to be a useful document. • The documents in the Procurement Documents Library were considered to be generally fit for purpose. 	1.	Compliance with Council Requirements and Legislation	-	3	-	2.	Value for Money	2	2	1	3.	Procurement Activities	-	-	1	Total		2	5	3
1.	Compliance with Council Requirements and Legislation	-	3	-																		
2.	Value for Money	2	2	1																		
3.	Procurement Activities	-	-	1																		
Total		2	5	3																		



Overall Internal Audit Assurance Opinion	Risk Areas		
<p> ★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions). </p> <p>Introduction and Terms of Reference (ToR)</p> <p>The background for this internal audit is included in the <u>ToR</u> at the end of this report.</p> <p>The audit fieldwork took place between 09/04/18 to 08/05/18. Oracle cloud went live on 14/05/18, but in staggered stages with full implementation due on 21/05/18.</p> <p>Changes to the scope and opinion on areas unable to test</p> <p>There were limitations to the scope for the following areas listed below, due to the availability of staff, supporting documentation not being provided, or controls not yet in place. Therefore, internal audit has had to give 'No Assurance' in these areas:</p> <ul style="list-style-type: none"> Data Migration Issues Management User Acceptance Testing 3rd Party Assurance IT Application Controls <p>While there was some testing completed on the Roles and Responsibilities, the results of the testing were limited, as they were not all in place the time of the audit. Therefore, the controls could not be fully tested in this area either.</p> <p>An appendix accompanying this report, detailing some planned controls and their associated risks is included for information.</p> <p>Follow-up review</p> <p>A follow up review is required, as a 'No Assurance opinion' has been given. This may be included in the post implementation audit if more appropriate.</p>	<p> ■ No Assurance </p>		
	H	M	L
	1	-	-
	1	1	1
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	2	1	1
	<p>Key findings</p> <ul style="list-style-type: none"> A formalised data migration strategy has not been established by the Council to guide processes such as data mapping, cleansing, testing, issues management/escalation and roles and responsibilities of staff Vacation rules are not expected to have end dates enforced when officers take on other officer's roles and responsibilities whilst on vacation. Audit trails are yet to be decided. The Council have not yet fully documented a roles matrix to identify conflicting job roles <p>Internal audit will need to review the Oracle Cloud rollout again in 2018/19 as the roll out is staggered.</p>		

Appendix 3 - Status of corporate recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue		Re-opened at F/up		Re-occurring (core only)	
			H	M	H	M	H	M
Accounts Payable 17-18	Satisfactory	20/04/2018					1	2
Accounts Payable 2016-17	Limited	16/03/2017			1	2	1	1
Accounts Receivable 16-17	Limited	18/05/2017		2				1
Adult Social Care System - Back up and BCP	Limited	04/04/2016			1	1		
Banking 16-17	Limited	18/05/2017				2		
Banking 17-18	Satisfactory	22/03/2018		1			3	1
Budget Monitoring and Setting 2017-18	Satisfactory	05/12/2017		6				3
Capital Expenditure 17-18	Satisfactory	10/01/2018		1				1
Catford Regeneration Partnership Ltd	Limited	17/05/2018	2	3				
Client Contributions to Care Provision 16-17	Satisfactory	24/05/2017						1
Direct Payments 17-18	Satisfactory	22/03/2018						4
Expenses Reimbursed by Payroll 16-17	Satisfactory	30/01/2017		1				3
Garden Waste Service 2017/18	Satisfactory	05/01/2018	1	7				

Appendix 3 - Status of corporate recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue		Re-opened at F/up		Re-occurring (core only)	
			H	M	H	M	H	M
IT Helpdesk - Shared Services	Substantial	18/05/2018		1				
Lewisham Website and Intranet Content Usability	Satisfactory	22/12/2016		1				
Main Accounting 17-18	Satisfactory	06/02/2018	1	2				
Mobile Devices Contract 16-17	Satisfactory	07/07/2017		1				
Multi-Agency Safeguarding Hub Arrangements 2017/18	Consultancy	28/09/2017	1	3				
Non-Current Assets 17-18	Substantial	05/03/2018		1				
Payments to Adult Care Providers 17-18	Satisfactory	26/04/2018		3				4
Payments to Adult Care Providers 2016-17	Satisfactory	05/05/2017		1				1
Payments to Care Providers and Foster Carers 2016-17	Satisfactory	05/05/2017		1				1
Payments to Care Providers and Foster Carers 2017-18	Satisfactory	19/03/2017						1
Payroll 2017-18	Substantial	06/12/2017		1				
PFI Monitoring - School 15-16	Satisfactory	11/08/2016		1				
Pre-contract and Tendering 2017-18	Limited	24/11/2017	4	3				

Appendix 3 - Status of corporate recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue		Re-opened at F/up		Re-occurring (core only)	
			H	M	H	M	H	M
Processes for Payments to Main Providers (Child)	Consultancy	14/06/2016	1	3	1	1		
Public Sector Network 16-17	Limited	01/02/2017				1		
Recording of Safe Guarding – Section 42 Referrals	Limited	03/07/2017		4				
Schools' Catering Contract 16-17	Limited	03/03/2017		1		3		
Schools' Minor Work Programme 16-17	Limited	20/06/2017		1				
SharePoint 14-15	Satisfactory	13/10/2015				2		
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/2015		1				
Youth Offending Service 17-18	Consultancy	06/02/2018		8				
total			10	58	3	12	5	21

Appendix 4 – Status of schools recommendations

Name of Audit (Schools)	Opinion	Final Report Date	Recs Overdue
Beecroft Garden Primary School 2017-18	14/05/2018	Satisfactory	9
Brent Knoll School 2017-18	25/01/2018	Satisfactory	6
Downderry Primary School 2017-18	26/07/2017	Substantial	1
Horniman's School 16-17	01/06/2017	Satisfactory	1
Kelvin Grove Primary School 2017-18	22/11/2017	Substantial	1
New Woodlands School 17-18	12/04/2018	Substantial	1
Prendergast - Hilly Fields 2015-16	29/07/2016	Satisfactory	2
Prendergast Vale School 2015/16	29/07/2016	Substantial	3
Rangefield Primary School 16-17	06/02/2017	Satisfactory	2
Sir Francis Drake Primary School	22/05/2018	Substantial	5
St Augustine's Catholic Primary School	15/03/2017	Substantial	1
St Saviour's RC Primary School 17-18	19/12/2017	Satisfactory	3
St William of York Catholic School 17-18	07/03/2018	Substantial	3
St Winifred's Catholic Primary School 17-18	02/05/2018	Substantial	3
Turnham Primary 13-14	31/07/2013	No Assurance	1
Turnham Primary School 16-17	04/07/2017	No Assurance	23
		TOTAL	65

Appendix 5 – Schools’ Audit Plan and status for 2018/19

Schools’ Audit Plan	Scope	Status
Abbey Manor College	Procurement, Income, Governance, Budget Monitoring, Banking, Asset Security, Payroll, HR, and Information Security.	
Adamsrill Primary	As above	
Addey and Stanhope Secondary	As above	
Ashmead Primary	As above	
Athelney Primary	As above	
Bonus Pastor Catholic College	As above	
Chelwood Nursery	As above	
Conisborough College - (Colfe's Associated School	As above	
Deptford Green Secondary	As above	
Edmund Waller Primary	As above	
Fairlawn Primary	As above	
Forest Hill Secondary	As above	
Forster Park Primary	As above	
Holbeach Primary	As above	
Kender Primary	As above	

Appendix 5 – Schools’ Audit Plan and status for 2018/19

Schools’ Audit Plan	Scope	Status
Kilmorie Primary	As above	
Launcelot Primary	As above	
Prendergast School	As above	
Prendergast Ladywell Fields College (Secondary)	As above	
Prendergast Vale College (Secondary)	As above	
Sedgehill Secondary	As above	
St Margarets' Lee CE	As above	Fieldwork Ended
St Mary Magdalen's Catholic	As above	
St Michael's CE Primary	As above	Fieldwork Ended
Sydenham Secondary	As above	
Trinity CE Secondary (through school)	As above	
Watergate Special School	As above	

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Internal Audit Charter

2018-19

Last Reviewed: Mar 2018
Next Review : Mar 2019

Introduction

The main purpose of this charter is to provide the members and management on how the internal audit service will function in the coming year. It includes the roles and responsibilities of internal audit, including members and management responsibilities in relation to the council's control environment. It is split into sections six sections.

1. Public Sector Internal Audit Standards (PSIAS)

This section explains how the PSIAS which came in to force in April 2014, revised April 2016, evolved and what its objectives are. All public bodies' internal audit services have to adhere to these statutory set of standards. A definition of internal audit, mission, core principles and the reason for the charter are also included.

2. Statutory Framework

Internal audit is a statutory function that all public bodies are required to have. It is supported by various legislation, which this section details.

3. Internal Audit Structure

For 2017/18, the internal audit structure will consist of an in-house team supported by the Head of Audit and an Internal Audit Manager. External resources will support the team. The Head of Audit (HIA) is the Head of Corporate Resources and forms of the Senior Management Team.

4. Accountability

Internal audit are required to report their findings to individual managers, Internal Control Board (ICB) and the Audit Panel. The Audit Panel reports to the Public Select Accounts Committee, who in turn report to the Mayor and Cabinet and Full Council. This section also covers the current relationship between Internal Audit and External Audit.

5. Internal Audit Framework

Independence and Objectivity - Internal auditors are required to be independent and objective. The Internal Audit Manager monitors and controls the conflicts of interests of the team (including contractors) and those of the Head of Internal Audit who has other operational responsibilities.

Resourcing Internal Audit – this will be the first year where an in-house team will formally be resourced and form a significant part of the internal audit service. External resources, from both public and private internal audit sectors, will support them in the delivery of the internal audit plan.

Types of Audit Reports – in addition to the individual audit reports, internal audit reports quarterly to the (ICB) and Audit Panel. The Schools Forum receives an annual report on the schools audited during the year. The HIA produces an annual assurance report that is presented to ICB and the Audit panel, which provides an opinion on the overall control environment.

Types of Work Conducted – Assurance work, which provides an opinion on controls is the most common type of work, with Consultancy (advisory) and grant certification taking a small part of the plan. Advice is provided to management when requested including attending project meetings.

Authorisation and Management Responsibilities – the Executive Director of Resources and Regeneration has given internal auditors and AFACT investigators the authority to access all council areas, including records and premises. Management are responsible for the control environment and have a duty to ensure that the audit process runs smoothly.

6. Professional Codes of Conduct and Whistleblowing

All internal auditors are required to adhere to their own professional body's code of conduct, including being mindful of the seven principles of public life. Internal audit annually review the compliance with the CIPFA guidance on the Role of the Head of Internal Audit.

The Whistleblowing policy and details on how to report fraud or suspected fraud are found in this section.

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1. The Charter and Public Sector Internal Audit Standards

PSIAS

- 1.1. The Public Sector Internal Audit Standards (PSIAS), developed in collaboration by a number of bodies, including Chartered Institute of Internal Auditors and the Chartered Institute of Public Finance and Accounting (CIPFA), came into effect on the 1 April 2013. The PSIAS was revised in April 2016. The statutory standards were developed to create consistency in the practice of internal audit and establish the basis for quality assurance across the public sector.
- 1.2. The objectives of the PSIAS are to:
 - Define the nature of internal auditing within the UK public sector;
 - Set basic principles for carrying out internal audit in the UK public sector;
 - Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations; and
 - Establish the basis for the evaluation of internal audit performance and to drive improvement planning.
- 1.3. The PSIAS state that an independent external assessment of the Internal Audit Service is to be conducted at least every five years. However, an assessment (whether internal or review by a peer) should be done annually and results reported in the annual assurance report. Lewisham's first formal independent external assessment took place in 2015/16.

Core Principals for the Professional Practice of Internal Auditing

- 1.4. To be an effective internal audit service, all of the core principles should be in put in place and adhered to. Failure to achieve any of the principals could imply that that the internal service is not as effective as it could be.
- 1.5. The core principals are:
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is appropriately positioned and adequately resourced.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance.
 - Is insightful, proactive, and future-focused.
 - Promotes organisational improvement

Internal Audit Mission

- 1.6. The Mission of Internal Audit articulates what internal audit aspires to accomplish within an organisation. Its place in the IPPF is deliberate, demonstrating how practitioners should leverage the entire framework to facilitate their ability to achieve the Mission. It also aims to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.

Definition of Internal Auditing

- 1.7. The Global Institute of Internal Auditors definition is: "Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes."

Anti-Fraud and Corruption Team (A-FACT)

- 1.8. In Lewisham, A-FACT conduct the investigational side of Internal Audit. They are responsible for developing anti-fraud policies and procedures, promoting a counter fraud culture, and undertaking investigations of potential fraudulent activity committed against the Council. A-FACT also ensures that appropriate sanctions, including prosecution and the

recovery of assets where applicable, are sought where fraud is proven. The Council's A-FACT policy and strategy is separate to this internal audit charter.

[Purpose of Internal Audit and A-FACT](#)

- 1.9. Internal Audit and A-FACT are council resources that assist management in the achievement of the Council's corporate and service objectives. While management are responsible for risk management and the control environment, internal audit assists management in providing advice on how to mitigate these risks and how to improve the control environment.

2. Statutory Framework

- 2.1. As defined by the following acts and guidance listed below, Internal Audit is a statutory function of the Council (and other public bodies). This means that the Council is required to have an internal audit function, whether it is in-house, outsourced or a combination.

[The Accounts and Regulations 2015 \(England and Wales\) – Part 2 Internal Control 5.1](#)

- 2.2. This Act requires the Council to 'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

[Local Audit and Accounts Act 2014 – Section 32 \(g\),](#)

- 2.3. "The Secretary of State may by regulations applying to relevant authorities other than health service bodies make provision about— (g) the maintenance by relevant authorities of systems of internal control (including arrangements for the management of risk).

[Section 151 of the Local Government Act 1972](#)

- 2.4. This act states that every local authority in England and Wales should "make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs".

[The Council's Chief Financial Officer \(CFO\)](#)

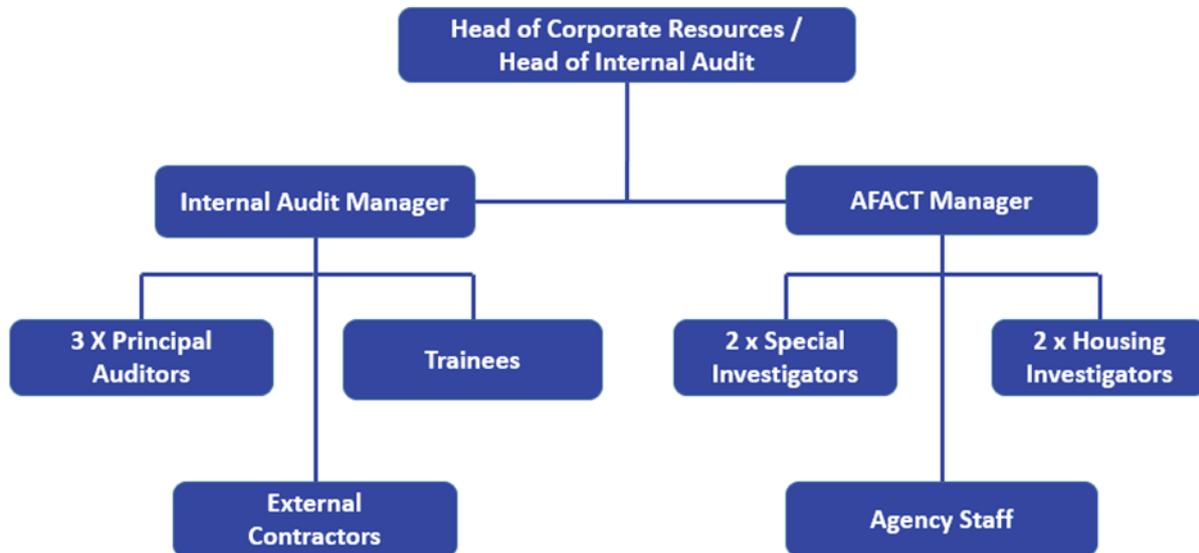
- 2.5. This role is fulfilled by the Executive Director for Resources and Regeneration. The CIPFA Statement on the Role of the CFO in Local Government states that they "must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively".

3. Internal Audit and Organisational Structures

- 3.1. Internal Audit and A-FACT are part of the Corporate Resources service area that sits within the Resources and Regeneration Directorate. The Head of Internal Audit (HIA) is also the Head of Corporate Resources. The HIA reports directly to the Executive Director of Resources and Regeneration, who is also the Section 151 officer and the CFO.

[Internal Audit Structure Chart](#)

- 3.2. For 2018/19, at the start of the year, the structure looks very similar to the previous year. The trainee/s post is not yet filled. This is due to having new two new PO3 vacancies only being filled in qrt 4 of 17/18.
- 3.3. A final decision on the final structure for the internal audit structure will be made in qrt 2. The options are to have an additional PO3 post and one trainee. This will benefit the council and the team, in a year of change of management and potential objectives. Or to continue with the original course of having two trainees.
- 3.4. The chart also shows the AFACT team structure.



Senior Management Structure

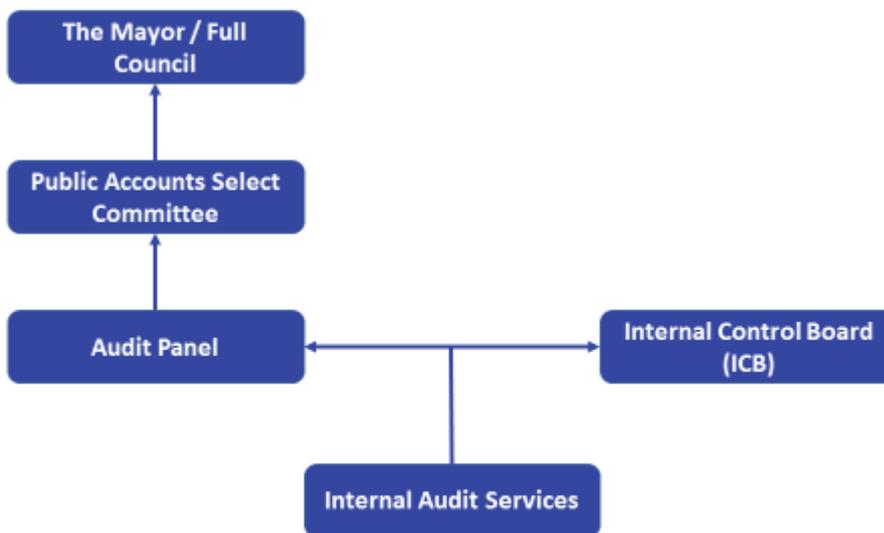
3.5. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council. The Council’s senior management structure charts can be accessed via the link below. <http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/Pages/management-structure-charts.aspx>

4. Accountability

4.1. In addition to reporting to the Section 151 Officer, the HIA reports directly to the Internal Control Board (ICB) and the Audit Panel on a quarterly basis

Internal Audit Reporting Lines

- 4.2. Please see a simple structure showing the reporting lines for internal audit in relation to management and members.



- 4.3. A link to Council's Constitution is provided below, which details the whole governance of the Council.
<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/Our-constitution.aspx>

Internal Control Board (ICB).

- 4.4. The HIA reports to the ICB quarterly and reports on:
- Progress of the internal audit plan, including follow-up reports
 - Limited, No Assurance and Consultancy reports.
 - High and Medium Recommendations not agreed by management
 - Progress by management of the implementation of recommendations made
- The HIA reports annually on the:
- Proposed annual audit plan
 - Annual Assurance report and
 - Audit Charter

- 4.5. Membership of this board consists of an Independent Non-Executive Chair (external person), the Executive Directors, the Chief Executive Officer, the Head of Law, and the Group Manager of Insurance and Risk. The HIA reports quarterly to ICB. Please see Appendix 1 for the ICB terms of reference.

Audit Panel

- 4.6. The HIA also reports to the Audit Panel on a quarterly basis. The Audit Panel report has the same content as the ICB report. The Audit Panel consists of six Non-Executive Councillors, one of which serves as the Chair. In addition, there are up to four Independent Members.
- 4.7. In addition, the remit of the Audit Panel (in terms of internal audit), is to receive, review and, where appropriate, advise and make recommendations on the following:
- Review and approve the Internal Audit Strategy / Charter, Plans and Resources;
 - Review the progress reports on the Internal Audit Function;
 - Review the HIA Annual Assurance report;

- Review the progress of implementation of recommendations; and
- Monitor the effectiveness of Risk Management and associated Anti-Fraud and Corruption arrangements.

The Chair of the Audit Panel reports to the Public Accounts Select Committee (PASC) at least once a year.

Public Accounts Select Committee (PASC)

- 4.8. PASC consists of at least seven and no more than 11 non-Executive Councillors. The remit in terms of Internal Audit is to:
- Receive reports from the Audit Panel; and
 - Scrutinise the effectiveness of the Audit Panel.

For the full terms of references for the PASC, please refer to the link below to the Council's Constitution.

<https://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/Our-constitution.aspx>

External Audit

- 4.9. External audit are independent of internal audit and the council. Their main role is to certify the Council's financial statements. Although they review the controls in relation to financial statements, they do not provide an opinion on the effectiveness of them.
- 4.10. Internal audit issue all final assurance reports to external audit and the files are available to them to view if required.

Schools' Forum

- 4.11. In addition to the above, internal audit report to the Schools' Forum annually. This is forum is made up of staff from schools, such as Head teachers and School Governors. Officers from the council are also attendance. This forum is not members' lead.

5. Internal Audit Framework

Independence and Objectivity

- 5.1. A definition of independence (in relation to Auditors') is, "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".
- 5.2. PSIAS definition of objectivity: "An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors to not subordinate their judgment on audit matters to others".
- 5.3. Internal auditors are mandated by the PSIAS to be independent and objective concerning the business activities they audit. The HIA and Internal Auditors, who may have conflicts of interests either real or perceived, must declare them to the Internal Audit Manager. This is in addition to any declarations that they council may require. The Internal Audit Manager will monitor these conflicts to ensure that they do no impact on the internal audit service.
- 5.4. The Internal Audit Manager will declare any interests to the HIA for him to monitor.
- 5.5. As the HIA has other operational activities not relating to internal audit, the HIA has delegated the responsibility for agreeing the scope of the audit to the operational manager with the Internal Audit Manager overseeing the work to ensure that it fulfils internal audit requirements. In these audits, the Internal Audit Manager will operate independently from the HIA, and report to the CFO.

Resourcing Internal Audit

In-house Internal Audit Team

- 5.6. The in-house team will be responsible for
- Conducting internal audits and follow-up reviews;
 - Monitoring any internal audit contracts and liaising with partners;
 - Monitoring and reporting on the progress of management actions (recommendations) to ICB and Audit Panel;
 - Assisting the HIA in the annual audit planning process;
 - Providing management information as requested;
 - Assisting the HIA in preparing the annual assurance report; and
 - General management of the internal audit function.

Internal Auditors (Contractors / Outside partners)

- 5.7. The following will support the in-house team to complete the audit plan.
- Mazars – (under the London Borough of Croydon Framework)

Head of Internal Audit (HIA)

- 5.8. In addition to the internal audit and A-FACT, the HIA has operational responsibilities within the Council. They are:
- Insurance;
 - Risk Management;
 - Corporate Health & Safety;
 - Procurement; and
 - Strategic Finance, including Treasury and the Pension Fund investments and accounts.
- 5.9. In addition to the above during the early part of 2018/19, the HIA is temporary taking over some of the responsibilities of Executive Director for Resources and Regeneration, while they are acting up as Chief Executive. This includes the role of section 151 officer and overseeing Regeneration and Place service.
- 5.10. Insurance, Corporate Health and Safety, AFACT and Risk Management have a three-year audit cycle. Procurement and Strategic Finance will continue on an annual audit basis.

Productive Days

- 5.11. The corporate audit plan for 2018/19 consists of 753 productive days and 56 reviews. It is broken down as follows
- Core Financial Audits (includes follow ups)– 220 days / 17 audits
 - IT Audits – 65 days
 - Contract Type audits – 49 days
 - Grant certification – 5 days
 - General Audits 241 - days
 - Follow up – 14 days
 - Management review – 100, and
 - 59 days contingency.
- 5.12. In addition the schools' plan for 2018/19 consists of 148 days.
- 5.13. The HIA will ensure that there are enough resources and qualified staff to provide the annual opinion on the control environment of the Council. Where the HIA believes that there are insufficient resources, they will bring this to the attention of the Section 151 officer and the Audit Panel, and a qualification to the annual assurance report may be required.

Anti-Fraud and Corruption Team (A-FACT)

- 5.14. The team is made up of five full time permanent staff supported by agency staff where required. The team's main areas of work are Housing investigations, Special Investigations and fraud awareness training.
- 5.15. In addition, AFACT are the main point of contact for the National Fraud Initiative (NFI) that is run every two years by the Cabinet Office (previously overseen by the Audit Commission).

Types of Audit Reports

Quarterly and Other Annual Reports

- 5.16. Internal audit reports to ICB and the Audit Panel on a quarterly basis.
- 5.17. Annually, internal audit reports to the Schools' Forum on the schools' audit plan and control issues found during the year.

Annual Assurance Report

- 5.18. The HIA issues an annual assurance report to the Audit Panel. This informs the Annual Governance Statement (AGS) which incorporates the Statement of Internal Control. The HIA annual assurance report includes:
- An opinion on the overall adequacy and effectiveness of the Council's control environment;
 - Any qualifications to the opinion;
 - Summary of audit work completed that helped form the opinion;
 - Summary of reliance placed on the work by other assurance bodies;
 - Confirmation on compliance with the PSIAS (including role of HIA if applicable); and
 - Internal Audit's quality assurance and improvement plan.

Individual Audit Reports

- 5.19. For each individual review, (whether assurance or consultancy), management receive a report with the following information.
- Audit opinion of the controls in place (for assurance reviews only);
 - Executive Summary;
 - Agreed ToR, including any changes to the original scope;
 - Auditor findings;
 - Recommendations made (ranked high, medium or low) and
 - Management comments, including the expected date of implementation of recommendations and officer responsible for implementing them.

Types of Work Conducted

Assurance Review

- 5.20. An Assurance review is an objective assessment that provides an opinion on the effectiveness of the controls in place. In addition, internal auditors will recommend actions to management on how to improve controls in their area.
- 5.21. Internal audit follows-up on any audits Limited, No Assurance or Consultancy review within six months of the final report.
- 5.22. For Assurance reviews, internal audit report by exception, which means the report only contains detail those areas where controls need to be improved. This type of review should form the majority of the work in the internal audit plan.

Consultancy Review

- 5.23. A consultancy review is an advisory review that intends to add value and improve the Council's governance, risk management and controls processes. Management agree the scope of the review. Internal audit does not provide an opinion on the effectiveness of the controls in place but does provide recommendations to management to improve the processes and/or controls. Internal audit follows-up on any audits with High or Medium recommendations made, six months from the final report.
- 5.24. Consultancy reviews make up a small part of the audit plan. Where the plan is made up of significant consultancy work, the Audit Panel would need to approve the request before the work is committed to.

Advice

- 5.25. It is not always appropriate to conduct an assurance or consultancy review when management just require help and advice. Where internal audit provides advice to management or attends a project meeting to give advice, management will receive an

informal memo detailing any advice or recommendations made. An opinion is not provided in these memos and any recommendations made to management are not monitored or followed-up by internal audit.

- 5.26. Where an auditor has provided significant advice to management, they will be prevented from auditing that area for the next 12 months (or longer if applicable), so that internal audit independence and objectivity is retained.

[Grant Claims](#)

- 5.27. Central Government Bodies sometime require internal audit to certify a grant claim. In these instances, internal audit will confirm if management have met the qualifying criteria of the grant. A memo type report is issued to management certifying the grant where needed. Any recommendations to management are not normally monitored or followed-up by internal audit.

[Authorisation and Management Responsibilities](#)

[Authorisation](#)

- 5.28. Both the HIA and the Internal Audit Manager have unrestricted access to the:
- Chief Executive Officer;
 - Executive Director of Resources and Regeneration (Section 151 officer/ CFO); and
 - The Chair of the Audit Panel.
- 5.29. The CFO has given authorisation to all Internal Auditors (both in-house and contractor) and A-FACT staff to:
- Enter Council premises at all reasonable times;
 - Have access to and remove as necessary Council records (paper or electronic);
 - Require explanations from Council officers as necessary; and
 - Require any person holding Council property to produce it for examination.

[Responsibility of Management](#)

- 5.30. Management are responsible for the control environment. They also have a responsibility to assist internal audit in the audit process to ensure it runs as smoothly as possible. They should ensure that they:
- Respond to any requests for information promptly;
 - Do not cancel meetings with auditors unnecessarily;
 - Query any findings or recommendations prior to the finalisation of the audit.
 - Update the progress of implementation of their recommendations when required.

Management may be required to attend the Audit Panel to explain to members if they do not comply with any of these requirements.

6. [Professional Codes of Conduct and Whistleblowing.](#)

- 6.1. Internal Auditors (both in-house and contractors) must adhere to their professional bodies codes of conduct. In addition, they should adopt the CIIA Code of Ethics, and Seven Principles of Public Life.

[IIA Code of Ethics](#)

- 6.2. The CIIA Code of Ethics is a statement of principles and expectations governing behaviour of individuals and organisations in the conduct of internal auditing.
- Integrity - The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
- Objectivity - Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
- Confidentiality - Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

Competency - Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Seven Principles of Public life

- 6.3. The 'seven principles of public life' apply to anyone who holds a public office or works in the public sector. Internal auditors have adopted these principles in addition to adhering to internal code of conduct. They are: Selflessness, Integrity, Objectivity, Accountability, Openness, Honesty and Leadership.

Role of Head of Internal Audit

- 6.4. CIPFA issued the statement on the role of the Head of Internal Audit in December 2010. Although not a mandatory like the PSIAS, the statement provides the framework to ensure that the HIA role is up to the required standard to run the statutory internal audit function. The framework consists of five principles. The Role of the HIA is reviewed annually and is reported in the Annual Assurance Report. The main principals are:
Principle 1 – Championing best practice in governance,
Principle 2 – Objectivity,
Principle 3 – Governance,
Principle 4 – Leadership, and
Principle 5 – Qualification and Experience.

Whistleblowing Policy

- 6.5. The Whistleblowing policy (see link below) is overseen by Legal, but any fraud or concerns about fraud can also be reported to A-FACT.

Whistleblowing Policy

<http://www.lewisham.gov.uk/mayorandcouncil/Complaints-and-feedback/Documents/WHISTLEBLOWING%20POLICY%20OCTOBER%202015.pdf>

How to report fraud

Telephone 24hr: 0800 0850 119

Email: reportfraud@lewisham.gov.uk

Website detailing the types of fraud the A-FACT can investigate:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/Pages/Report-fraud.aspx>

7. Approval and Contacts

7.1. Main Contacts for Internal Audit and A-FACT

Head of Internal Audit (Head of Corporate Resources) – david.austin@lewisham.gov.uk

Internal Audit Manager – julie.hetherington@lewisham.gov.uk

A-FACT Manager – carol.owen@lewisham.gov.uk

7.2. Charter Approved by Audit Panel on : July 18(TBC)

7.3. Next Review : March 2019

Corporate Internal Control Board

Membership

- Independent non-executive Chair
- Chief Executive
- Executive Director for Resources & Regeneration
- Executive Director for Children & Young Persons
- Executive Director for Community Services
- Executive Director to Customer Services
- Head of Law
- Group Manager Insurance & Risk
- Head of Corporate Resources (for monitoring and control)

Terms of Reference

1. To identify and manage key strategic risks that could prevent the Council from meeting its objectives
2. To link risks to the corporate priorities and assess the likely impact and consequences of those risks
3. To allocate responsibilities for controlling identified risks
4. To complete the Corporate Risk Register, reviewing and monitoring this on a quarterly basis
5. To receive and review quarterly reports from the Risk Management Working Party (RMWP)
6. To receive regular reports on Internal Control within the Authority
7. To ensure a corporate approach to the management of risk, health and safety and emergency planning
8. To approve the Risk Management Policy and Risk Management Strategy
9. To support the risk management reporting and review framework, detailed in the Risk Management Strategy
10. To oversee the annual review of the System of Internal Control and Annual Governance Statement

AUDIT PANEL		
Report Title	Internal audit report for the School Forum for 2017-18	
Key Decision	No	Item No. 5
Ward	All	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 11 June 2018

1. Purpose of this report

- 1.1. This report presents the Schools' Forum with a summary of the 2017-18 (fiscal year) internal audit work in schools.

2. Recommendations

- 2.1. That the Schools' Forum note the report.

3. Background

- 3.1. All schools maintained by the Council currently have an internal audit every three years. Members' agree the schools' audit plan around February / March for the following fiscal year (April to March). The Royal Borough of Greenwich, along with the new in-house team conducted the audits during 2017-18.
- 3.2. Internal audit use the same scope for testing at each school. The scope covers nine high-risk (non-teaching) areas which include; Procurement (purchasing), Governance, Asset Management, Banking, Budget Monitoring, Income, Recruitment, Payroll, and Data Security.
- 3.3. Internal audit assesses the controls in these risk areas and provides an opinion on the effectiveness of them to Governors, School Senior Management, and Senior Management at Lewisham Council. The overall assurance opinion categories are Substantial, Satisfactory, Limited and No Assurance.
- 3.4. Where appropriate, internal audit will make recommendations to help management improve these controls to minimise the risks. Recommendations are ranked using three levels, High, Medium and Low.
- 3.5. At the time of writing this report, one school report was still at draft. However, they are included in the report as if they are finalised as the content and assurance opinion is not unlikely to change significantly.

4. Audit assurance opinion

4.1. In 2017-18, 27 schools had an internal audit review. These are listed in Appendix 1. This is the first year where no 'Limited' or 'No Assurance' opinion assurance reports were issued.

- No Assurance - None
- Limited - None
- Satisfactory – 10 (including the one at draft stage)
- Substantial – 17

The definitions of the assurance opinions and the categories of the recommendation are in Appendix 2.

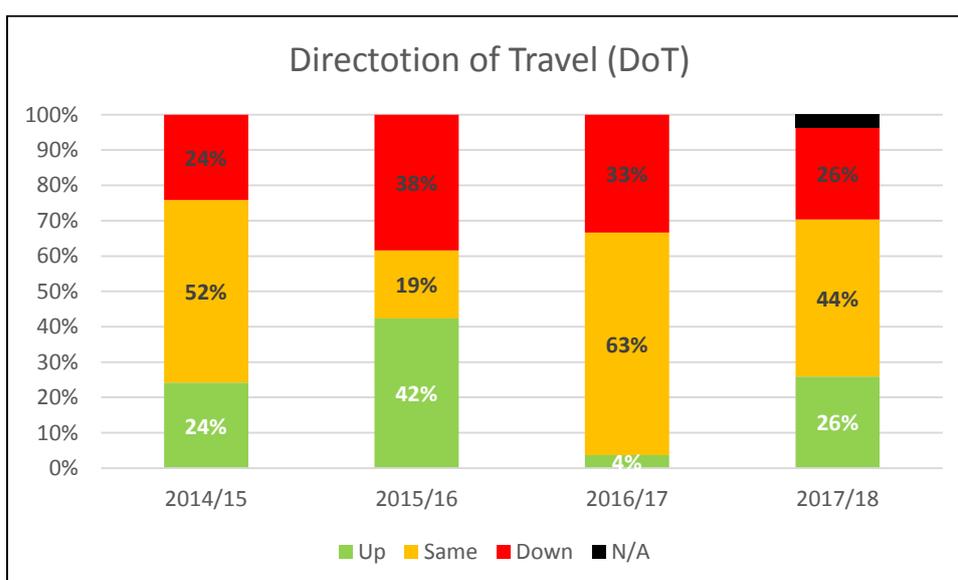
4.2. The overall assurance opinion for the year for all the schools' is Satisfactory. This is consistent with previous years. Councillors are informed of this opinion in the annual assurance report to be presented to them at the July 2018 Audit Panel meeting. The annual assurance report feeds into the Annual Governance Statement (AGS), which forms part of the Council's financial accounts.

4.3. A list of the schools that had an audit can be found in Appendix 1. It details the audit opinion, number of recommendations made, and the date of the final report (where applicable).

5. Direction of travel

5.1. In addition to providing an assurance opinion, internal audit also notes the direction of travel for each school. It compares the audit assurance opinion from the last audit (normally three years earlier) to the current assurance opinion.

5.2. The graph below (graph 1) show the direction of travel for schools for the last four years.



Graph 1

5.3. It shows that for 2017-18:

- 26% of audits have a lower audit opinion than last audit.
- 44% of audits have the same audit opinion,
- 26% of audits had an improved audit opinion, and
- 4% was not applicable. This means they had not been audited previously (in this case, an infant and junior merged into one school).

- 5.4. It should be noted however, that having a lower opinion, does not necessarily mean they have a negative opinion. They could have moved from Substantial to Satisfactory, which are both positive opinions.
- 5.5. Equally, those schools' whose opinion remained the same, could mean the school continues to have a negative opinion (although not in this year as there were no limited or no assurance opinions issued).

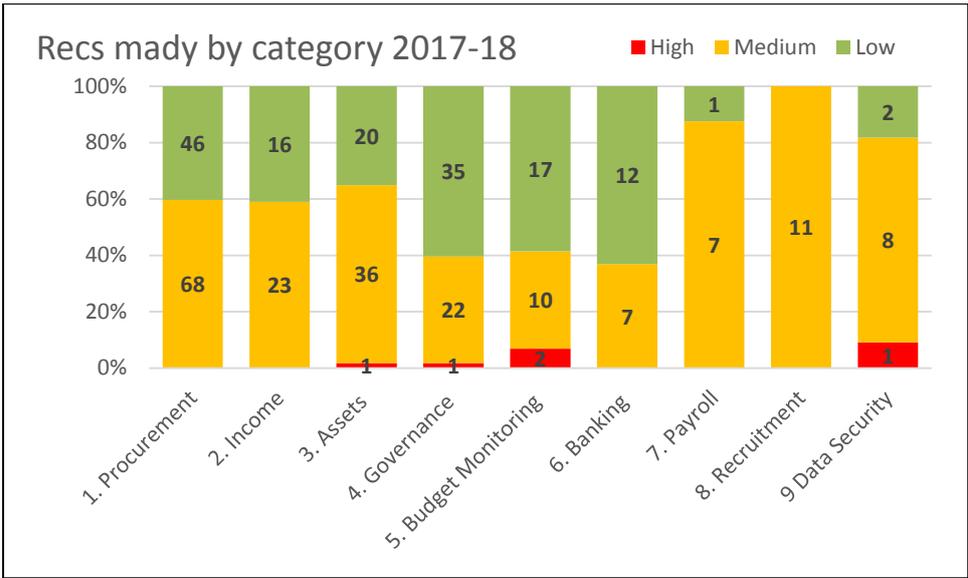
6. Follow-up reviews

- 6.1. Where a school has had a negative assurance opinion, (Limited or No Assurance), internal audit will conduct a formal follow-up review, normally nine months after the final report. This allows time for the agreed actions to be implemented and assessed.
- 6.2. The auditor will review the status of all the agreed High and Medium recommendations made. A brief report is provided to Senior Management at the school, Chair of Governors, and relevant Senior Management at the Council. These follow-up reviews are in addition to any updates provided by the school to the CYP Directorate.
- 6.3. For 2017-18, the school that had negative opinions in 2016-17 had their follow up reviews done in January 2018. The status of the recommendations at the time of the follow-up are set out in the table below.

Audit Followed – Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implem-ented	In Progress	Not Implem-ented	Total
Turnham Primary	No Assurance	04/07/17	22/01/18	9	18	6	33

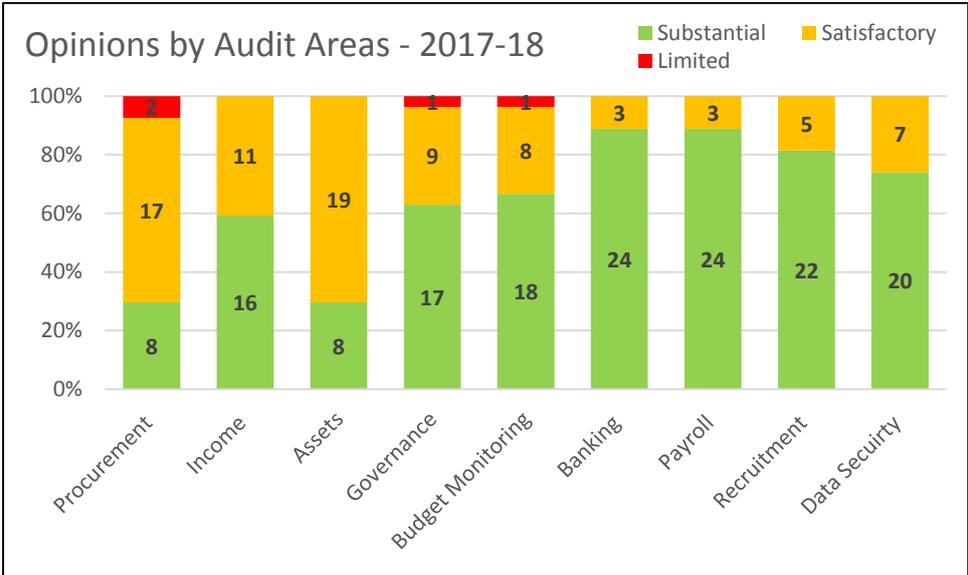
7. Recommendations and Audit Opinions by Risk Headings.

- 7.1. The auditor will make recommendations where improvements to controls are required. These are categorised as High, Medium and Low.
- 7.2. The graph below (graph 2), shows the percentage of recommendations made during 17-18, by risk heading and category of recommendation. A definition of the categories can be found at appendix 2.
- 7.3. The graph shows that high recommendations were made in respect of controls for Assets, Governance, Budget Monitoring and Data Security.
- 7.4. The top four areas where the majority of Medium recommendations were made were in regarding Procurement, Income, Assets and Governance controls.



Graph 2

7.5. In addition to the overall assurance opinion, an assurance opinion on the individual risk areas are also provided. This gives the stakeholders a more detailed look at what areas they need to concentrate their resources to improve controls. Please see the graph below, (graph 3).



Graph 3

7.6. Here you can see that the risk areas where the negative opinions were given in Procurement, Governance and Budget Monitoring.

7.7. The main areas where the most recommendations are made, (including low), are in Procurement, Governance, and Assets.

7.8. The main findings in Procurement are:

- Non-compliance with the procurement levels set by the Council, EU regulations and the school's own procurement levels.

- Purchase Orders (PO) not being raised (and therefore commitment to spend not approved).
- POs not completed prior to purchasing the goods or receiving the invoice.
- Lack of separation of duties in the procurement process.
- IR35 rules around contractor payments are not adhered to (i.e. are they classed as contractors or do they need to be paid via the school's payroll so that correct deductions can be made).
- Purchasing alcohol, gift vouchers, payment to staff social events and leaving / birthday presents out of schools main bank account.

7.9. The main findings in Governance:

- Lack of approval from Governing body for finance policy and / or local scheme of delegation.
- Finance policy not being updated with key changes, or not fit for purpose.
- Register of interest forms not completed by governors or staff with financial responsibility (or staff that can influence spend).
- Voluntary Fund / School Fund not audited and/or presented to governors for approval.

7.10. The main findings for Assets Management:

- Lack of segregation of duties - the officer who maintains the asset register also completes the stock take.
- Asset register not in place or not containing all the appropriate assets.
- Annual stock take not done.
- Write-off policy not in place.
- Write-off of assets not documented or authorised prior to disposal.
- Assets not appropriately security marked.

7.11. The main findings for Budget Monitoring:

- Budgetary forecasting / monitoring not done monthly.
- Incorrect input of agreed budget or revised budget on to the finance system.
- Governors' not approving the budget on time, or minuting their approval
- Virements not approved or authorised over officers limit

8. Conclusion

8.1. Overall, although the assurance opinions remain positive for the majority of schools the same types of recommendations continue to be made in a significant proportion of schools in the same areas - governance, assets, budget monitoring and procurement.

8.2. Given the growing financial pressures on schools, any lack of detailed budget monitoring is a concern. This issue increases the risk of school budget failure, that could result in deficit / or lower than expected carried forwards. Due to this, internal audit will categorise recommendations made about budget forecasting from Low to Medium from 2018-19. This may impact on the number of Medium recommendations or opinions given in 2018-19.

Internal audit suggest some points to improve the budget monitoring and therefore reduce the risk of overspend, please see below.

- Perform monthly budget forecasting, and not just relying on the returns sent to the Council twice a year.
- Input the budget for the year on the finance system as agreed by Governors. This includes all income, not just expenditure.
- Not just concentrating on expenditure budgets. While this of course is important, without knowing the income, the school would be at risk of overspending. If income does not come in as expected, then the school is in danger of overspend, even if the expenditure budget appears to be under control.

8.3. Internal audit continues to recommend that the Governors consider including a review of recommendations from internal audit and/or other reports as a regular agenda item. This will enable them to monitor the progress of actions to address recommendations and respond to any issues that may arise.

9. Financial implications

There are no financial implications arising directly from this report.

10. Legal implications

There are no legal implications arising directly from this report.

11. Crime and disorder implications

There are no crime and disorder implications arising directly from this report.

12. Equalities implications

There are no equalities implications arising directly from this report.

13. Environmental implications

There are no environmental implications arising directly from this report.

14. Background Papers

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk .

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	All Saints Primary School	Substantial	-	3	11	Procurement, Income, Assets, Governance, Budget Monitoring, Banking, Payroll, Recruitment and Data Security.	06/03/18
SCH	Brindishe Lee Primary School	Substantial	-	6	7	As above	30/04/18
SCH	Childeric Primary School	Substantial	-	3	8	As above	24/07/17
SCH	Eliot Bank Primary School	Substantial	-	-	2	As above	20/12/17
SCH	Gordonbrock Primary School	Substantial	-	1	1	As above	09/02/18
SCH	Grinling Gibbons Primary School	Substantial	-	1	1	As above	19/04/18
SCH	Greenvale Special School	Substantial	-	5	10	As above	10/10/17
SCH	Haseltine Primary School	Substantial	-	4	3	As above	28/09/17
SCH	Kelvin Grove Primary School	Substantial	-	8	4	As above	22/11/17
SCH	New Woodlands Special School	Substantial	-	3	2	As above	19/04/18
SCH	Perrymount Primary School	Substantial	-	7	6	As above	12/09/17
SCH	St Bartholomew's CE Primary School	Substantial	-	5	3	As above	19/04/18
SCH	Sir Francis Drake Primary School	Substantial	-	9	6	As above	22/05/18
SCH	St John the Baptist	Substantial	-	5	3	As above	19/10/17

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	St George's C of E Primary School	Substantial	-	1	2	As above	08/03/18
SCH	St William of York Primary School	Substantial	-	6	1	As above	07/03/18
SCH	St Winifred's Catholic Primary School	Substantial	-	4	1	As above	02/05/18
SCH	Baring Primary School (Draft)	Satisfactory	3	12	3	As above	DRAFT
SCH	Beecroft Garden Primary School	Satisfactory	-	16	4	As above	14/05/18
SCH	Brent Knoll School	Satisfactory	-	15	10	As above	25/01/18
SCH	Coopers Lane Primary School	Satisfactory	-	10	9	As above	14/03/18
SCH	Downderry Primary School	Satisfactory	-	9	7	As above	26/07/17
SCH	Elfrida Primary School	Satisfactory	-	12	6	As above	06/03/18
SCH	Holy Trinity CE Primary School	Satisfactory	-	9	11	As above	06/12/17
SCH	John Ball Primary School	Satisfactory	-	9	9	As above	26/09/17
SCH	St James Hatcham CE Primary School	Satisfactory	-	18	10	As above	01/05/18
SCH	St Saviour's RC Primary School	Satisfactory	-	12	10	As above	19/12/17

Appendix 7 – Annual Schools’ Forum Report for 17/18.

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.