



# AGENDA AUDIT PANEL

**Date: WEDNESDAY, 8 JUNE 2016 at 7.00 pm**

The Library  
Ground Floor, Laurence House  
Lewisham Town Hall  
London SE6 4RU

Enquiries to: **Olga Cole**  
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## COUNCILLORS

Councillor Chris Barnham  
Councillor Bill Brown  
Councillor Ami Ibitson  
Councillor Mark Ingleby  
Councillor Helen Klier  
Councillor Jonathan Slater

## Independent Members

Paul Dale  
3 Vacancies

**Members are summoned to attend this meeting**

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

Barry Quirk  
Chief Executive  
Lewisham Town Hall  
Catford  
London SE6 4RU  
Date: 31 May 2016



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.

## ORDER OF BUSINESS – PART 1 AGENDA

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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: 8 June 2016

## Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2016/17

# Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 8 June 2016

## Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 8 December 2015 be confirmed and signed.

# MINUTES OF THE AUDIT PANEL

Tuesday, 8 December 2015 at 7.00 pm

PRESENT: Councillors Helen Klier, Bill Brown, Mark Ingleby, Jim Mallory, Jonathan Slater, Eva Stamirowski and Richard King

ALSO PRESENT: Jamie Bewick, Manager Public Sector Assurance, Grant Thornton

Apologies for absence were received from Paul Dale

## 22. Minutes

### Appointment of Independent Panel Members

Officers informed the Panel that they were still trying to fill the vacancies and this was proving difficult. The next step would be to advertise in a national newspaper.

**Action >>>> Head of Financial Services and Head of Corporate Resources**

### Commissioning and Procurement Board

The Head of Corporate Resources told Panel members that he would circulate the handbook as promised, very soon.

**Action >>>> Head of Financial Services and Head of Corporate Resources**

RESOLVED that the minutes of the meeting held on 17 September 2015, which was open to the Press and Public, be confirmed and signed as a true record of the proceedings.

## 23. Declarations of Interests

None received.

## 24. Sedgehill School Deficit Update

The Head of Resources, Children and Young People introduced the report.

Councillor Mallory said it would be useful to have a covering report for every item, as this would clearly state the recommendations to be considered for the report. Councillor Mallory asked whether officers were confident that the outstanding recommendations for the school would be completed as stated, in January 2016, and was told officers were confident they would get done.

In response to Councillor Ingleby's question about changes in Senior Management staff, the Panel was informed that a Chief Executive had been appointed for

Sedgehill School, and in time staff changes would be done to support the new structure.

Richard King stated that information without a covering report was not helpful, and another item within the agenda did not have a covering report. The Chair requested that in future report authors should ensure all items on the agenda have a cover report.

**Action >>>> Head of Corporate Resources, Head of Financial Resources**

Panel members asked whether any lessons had been learnt from this experience. The Head of Resources, CYP said in future officers would look at schools' payrolls. Officers were also monitoring schools closely for trigger points, especially those that do not use the Council's payroll system. The Executive Director for Resources and Regeneration added that officers would also pay closer attention to the schools' returns.

The Chair asked whether the Council could have done more to prevent this, and was told by the Head of Resources, CYP that apart from checking the payrolls, officers could not have done more. He added that going forward officers would get financial data of the schools, and examine any changes in key personnel as this could be the trigger.

The Chair said it had come to light that Deptford Green school was also in deficit, and had been for over 18 months. The Head of Resources, CYP said he would be meeting with the School Bursar on Friday to discuss and set out reasonable steps that the school would need to follow through, adding that when the Headship of a school changes, this could pose a risk.

Councillor Mallory asked whether officers have access to Deptford Green's Payroll, and was told they did. It was also noted that the addition of a post sixteen provision to Deptford Green school would also add to their budget challenges as funding for post sixteen provision has gone down. In answer to the Chair's query, officers told the Panel that Deptford Green's Schools' deficit report would be going to Mayor and Cabinet in the New Year.

RESOLVED that the report be noted.

**25. Annual Audit Letter 2014/15**

Jamie Bewick, Manager Public Sector Assurance, Grant Thornton introduced the report. He highlighted that since the last meeting Lewisham's Accounts had been given an unqualified Value for Money conclusion, and the Audit Letter had been signed off.

Panel members asked whether they should be concerned that Lewisham's total level of reserves remains low in comparison to other councils, and was told that other Councils had added more funds to their reserves than Lewisham. Councillor Mallory asked for Jamie Bewick's advice on the matter. He advised that in the short term reserves could be utilised as Council's see fit but this would not be

sustainable in the longer term. Mr King said the adequacy of reserves was more important than comparison of reserves.

RESOLVED that the report be noted.

## **26. Budget Monitoring Financial Forecasts 2015-2016**

The Head of Financial Services introduced the report. He highlighted that this report had been to Mayor and Cabinet, and other Committees.

Councillor Stamirowski asked whether officers were confident the Council would achieve its aim. The Head of Financial Services said following the Corporate Spending Review last week, officers had spent time working out what the implications could be. The Executive Director for Resources said the provisional settlement to be announced the following week would tell local authorities what their funding would be for next year, but for now officers would stay with their current plans.

Councillor Slater commented that officers should look at ways to generate income as the spending review would be on-going for the foreseeable future. The Executive Director for Resources & Regeneration said an income generation officer had been appointed to lead on this, and there were some options being considered.

Panel Members requested an update on the Better Care Fund, and the Public Health Budget.

### **Action >>> Head of Financial Services**

The Chair said it had been 5 years since the launch of personal budget for Adult Social Care, and asked why the Council had not been able to bring the budget under control. Officers said the services were changing. The Chair asked whether savings would be made, and was told it would depend on the package used, and administration cost. It was noted that the full details were not yet known.

RESOLVED that the report be noted

## **27. Grant Thornton Audit Panel Update**

Jamie Bewick introduced the report, which highlighted progress in delivering the External Auditor's responsibilities. It included a summary of emerging national issues, developments that would be relevant to the council, and questions that Panel Members might want to consider. Panel Members were informed that the final report would be brought back to their next meeting.

Jamie Bewick said he would provide access to the reports as requested by Panel Members.

### **Action >>>>> Jamie Bewick, Grant Thornton**

RESOLVED that the report be noted.

**28. Internal Audit Update**

The Head of Corporate Resources introduced the report. He stated that work was underway on the 2015/16 audit plan. He said some of the audit recommendations to managers have not been agreed and the Executive Director for Resources and Regeneration, and the Internal Control Board would review these recommendations. Panel Members were also informed that the independent internal audit review would conclude in January 2016.

Panel Members questioned the number of overdue recommendations, and were told that some of them were related to the IT services, and as this contract was currently in transition it would not be effective if a representative were to be summoned to the meeting. Members were told that the IT Strategy was now in place.

The Chair asked officers about progress on the internal audit developments, and was told that officers were looking at different options carefully to ensure that the section gets the necessary professional support to enable efficient delivery of the service. The Chair said this seemed to be taking too long, and asked whether officers think the quality was improving. The Executive Director for Resources and Regeneration said officers think the quality of service had improved, and management were doing what they ought to do. Richard King said judging from the service provision available when he started as Panel member, he was convinced the quality of service was improving.

RESOLVED that the report be noted.

**29. Anti-Fraud & Corruption Update**

The Head of Corporate Resources introduced the report. He highlighted that Housing investigations continue to be important because of its impact on temporary accommodation. He also informed Panel Members that officers had been successful in securing a one off funding for counter fraud projects, and this had made provision to address some training needs.

Councillor Slater asked why the number of employee frauds had gone up, and was told that this could be as a result of effective preventive measures in the past when there had been adequate resources. Councillor Ingleby said the piece of work done for the 2 cases linked to No Recourse to Public funds was very helpful.

RESOLVED that the report be noted.

Meeting ended: 8.40

Chair.....

# Agenda Item 3

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 3
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 8 June 2016

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)

# Agenda Item 4

AUDIT PANEL		
Report Title	Audit Plan 2015/16	
Key Decision	No	Item No. 4
Ward	ALL	
Contributors	Executive Director for Resources and Regeneration	
Class	Part 1	Date: 8 <sup>th</sup> June 2016

## 1 SUMMARY AND PURPOSE

- 1.1 This presents the London Borough of Lewisham's Audit Plan for year-ending 31<sup>st</sup> March 2016. It provides an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. The document is designed to help Panel members' understanding the consequences of Grant Thornton's work, discuss issues of risk and the concept of materiality and to discuss areas where members may request that the auditors to undertake additional procedures.
- 1.2 Grant Thornton is responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.
- 1.3 The Audit Plan includes information on:
  - Developments and other requirement relevant to the audit
  - The audit approach
  - Significant and other risks identified
  - Value for money
  - Results from interim audit work

## 2 LEGAL IMPLICATIONS

- 2.1 Grant Thornton is required to perform their audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General in April 2015.

## 3 OTHER IMPLICATIONS

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

## APPENDICES

Appendix 1 – The Audit Plan for the London Borough of Lewisham 2015/16

**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

# The Audit Plan for the London Borough of Lewisham

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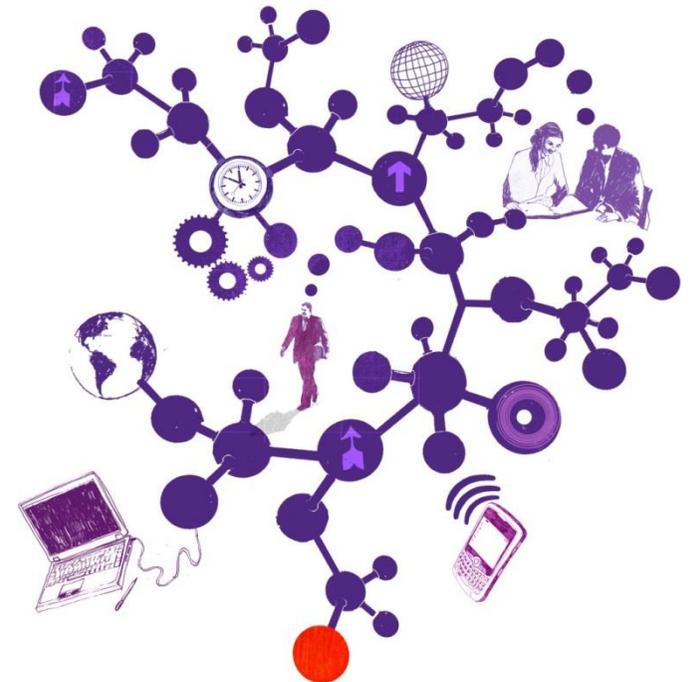
Year ending 31 March 2016

March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. 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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April 2016

Dear Members of the Audit Panel

[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

### **Audit Plan for London Borough of Lewisham for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of the Audit Panel (as those charged with governance), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

Yours sincerely

Darren Wells  
Engagement Lead

#### **Chartered Accountants**

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging. The Council estimates a £45m savings requirement over the next three years.
- There is a forecast overspend of approx. £8m against the Directorates' net general fund. The most significant cost pressures are in the Children's and Young People's budget.
- The short and medium-term outlook remains difficult. Continued strong management and fiscal discipline will be required to enable the Council to meet its financial targets for 2015/16 and beyond.

### 2. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on councils' housing revenue account business plans.

### 3. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- The Council is one of five London Health devolution pilots.

### 4. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 May and 31 July respectively by the 2017/18 financial year.
- The Council has asked for an earlier audit this year as a dry run to test its readiness for the future earlier deadline.

## Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach a value for money (VFM) conclusion.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how others are responding to these changes.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.
- We will review the Council's treatment of entries relating to the Better Care Fund in its financial statements, where this is significant to the accounts.

- We will work with you to identify areas of your accounts production where you can learn from good practice in other authorities.
- We aim to substantially complete our audit of your financial statements by 31 July 2016.

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are to be valued at fair value.
- There are a number of additional disclosure requirements of IFRS 13.

### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.

### 3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.

### 4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.

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## Our response

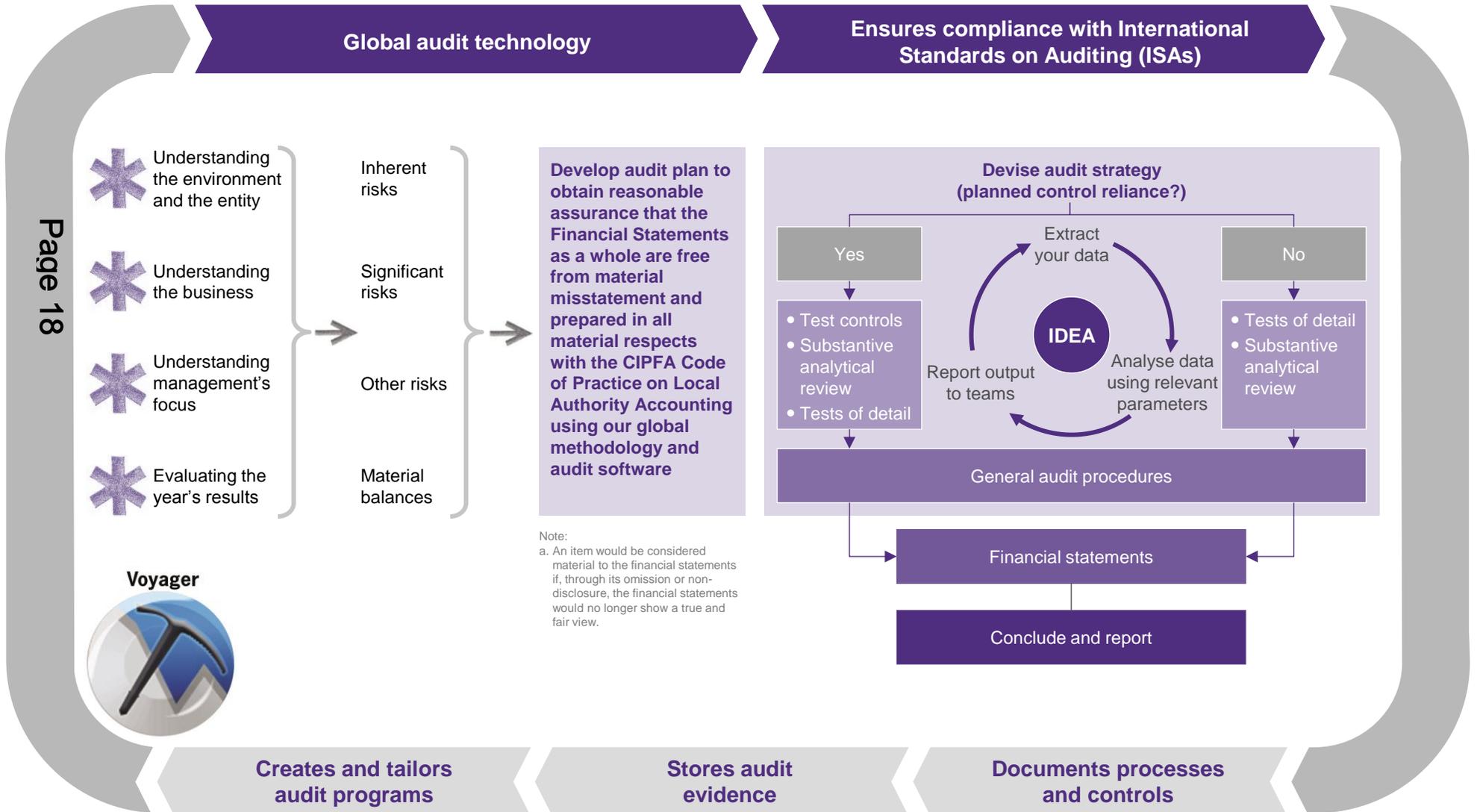
- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your Annual Governance Statement and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our VfM conclusion.

# Our audit approach



Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £19,117k (being 1.75% of gross revenue expenditure). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

In the previous year, we determined materiality to be £21,365k (being 2% of gross revenue expenditure).

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £955k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have identified the following items where separate materiality levels are appropriate.

Balance/transaction/disclosure	Explanation	Materiality level
Cash and cash equivalents	Although the balance of cash and cash equivalents is immaterial, all transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£500k
Disclosures of officers' remuneration, salary bandings and exit packages in notes to the statements	Due to public interest in these disclosures and the statutory requirement for them to be made.	£100k

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
<p>The revenue cycle includes fraudulent transactions</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 20</p>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at London Borough of Lewisham, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable.</li> </ul>
<p>Management over-ride of controls</p>	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of journal entry policies and procedures</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work planned</b></p> <ul style="list-style-type: none"> <li>• Walkthrough of operating expenses system, updating our understanding</li> <li>• Review and test the year end creditors control account reconciliation.</li> <li>• Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing)</li> <li>• Review your accruals policy and confirm that it has been properly applied</li> </ul>
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	<p><b>Work planned</b></p> <ul style="list-style-type: none"> <li>• Walkthrough payroll system, updating our understanding</li> <li>• Reconciliation of payroll to the General Ledger (for completeness)</li> <li>• Undertake analytical procedures e.g. trend analysis</li> <li>• Test a sample of transactions at the year end to confirm they are accounted for in the correct period (cut-off testing)</li> </ul>
Valuation of pension fund net liability	The Council's pension fund asset and liability as reflected in its balance sheet represent significant estimates in the financial statements.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• We will identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement.</li> <li>• We will review the competence, expertise and objectivity of the actuary who carried out your pension fund valuation. We will gain an understanding of the basis on which the valuation is carried out.</li> <li>• We will undertake procedures to confirm the reasonableness of the actuarial assumptions made.</li> <li>• We will review the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.</li> </ul>

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## Other risks identified (continued)

Other risks	Description	Audit approach
<p>Valuation of property, plant and equipment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 22</p>	<p>The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. The Council considers the current value of its PPE assets annually, undertaking revaluations where deemed necessary to ensure that the PPE balance is fairly stated. This represents a significant estimate by management in the financial statements.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of the competence, expertise and objectivity of any management experts used.</li> <li>• Walkthrough the system for PPE valuations</li> </ul> <p><b>work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate.</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions about the basis on which the valuation is carried out and challenge of the key assumptions.</li> <li>• Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding.</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value.</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes
- Funds held on trust note

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## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Value for Money

## Background

The Code requires us to consider whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VfM) conclusion.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO 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 here:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of good governance</li><li>• Understanding and using appropriate cost and performance information to support informed decision making and performance management</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li><li>• Managing risks effectively and maintaining a sound system of internal control</li></ul>
Sustainable resource deployment	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li><li>• Managing assets effectively to support the delivery of strategic priorities</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
Working with partners and other third parties	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities</li><li>• Commissioning services effectively to support the delivery of strategic priorities</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

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# Value for Money (continued)

## Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including the Care Quality Commission and Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter.

We will include our conclusion as part of our report on your financial statements which we will give by 30 September 2016.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
<b>Entity level controls</b> <b>Page 26</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements</p>

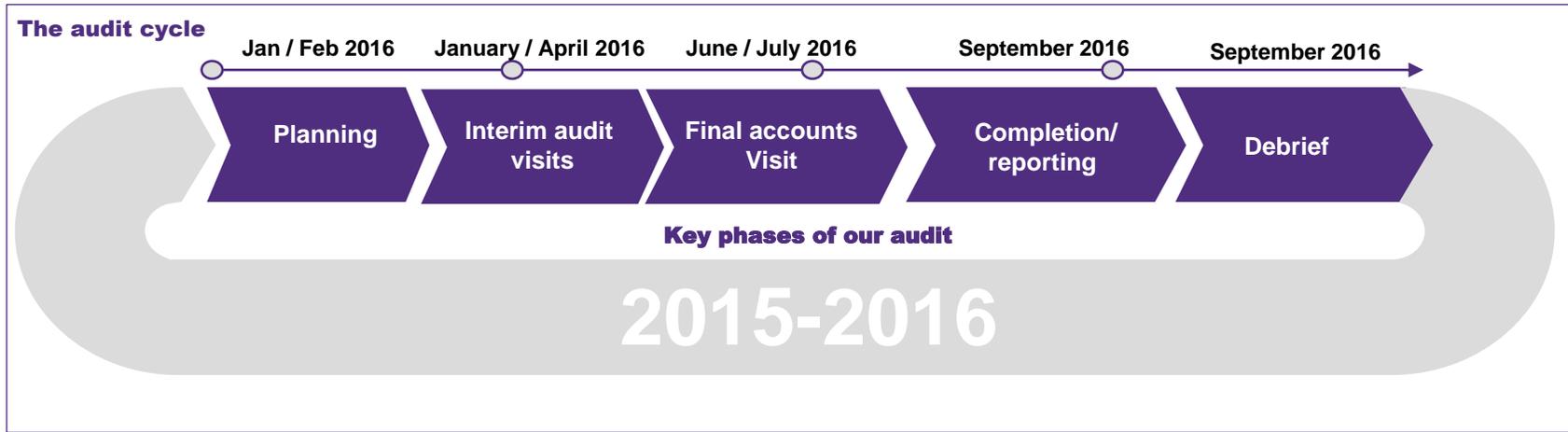
## Results of interim audit work (continued)

	Work performed	Conclusion
<p><b>Walkthrough testing</b></p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);"><b>Page 27</b></p>	<p>We have substantially completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work to date has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> <p>Walkthroughs:</p> <ul style="list-style-type: none"> <li>- Employee remuneration (substantially complete)</li> <li>- Operating expenses (substantially complete)</li> <li>- PPE valuations (Completed)</li> <li>- Valuation of pension fund (planned)</li> </ul>	<p>Our work to date has not identified any weaknesses which impact on our audit approach</p>

## Results of interim audit work (continued)

	Work performed	Conclusion
<b>Journal entry controls</b>  <span style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 28</span>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We have selected a sample of Journal transactions recorded for the first nine months of the financial year and will complete the testing at our next interim visit.</p>	<p>Our work to date has identified no material weaknesses in the policies and procedures determining Journals which are likely to adversely impact on the Trust's financial statements.</p>
<b>Early substantive testing</b>	<p>We have selected a sample of Payroll transactions recorded for the first nine months of the financial year and will complete the testing at our next interim visit.</p>	<p>No issues identified to date.</p>

# Key dates



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<b>Date</b>	<b>Activity</b>
Jan / Feb 2016	Planning
Jan / April 2016	Interim site visits
March 2016	Presentation of audit plan to Audit Panel
June / July 2016	Year end fieldwork
August 2016	Audit findings clearance meeting with Executive Director
September 2016	Report audit findings to those charged with governance (Audit Committee)
September 2016	Sign financial statements opinion

# Fees and independence

## Fees

	£
Council audit	193,233
Grant certification	25,569
<b>Total audit fees (excluding VAT)</b>	<b>218,802</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the Council by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Grant certification

- 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'.

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	<b>0</b>

## Fees for other services

Fees for other services for 2015/16 reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence.	✓	✓
Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged.		
Details of safeguards applied to threats to independence		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓



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AUDIT PANEL		
<b>Report Title</b>	<b>Audit Plan 2015/16 – Pension Fund</b>	
<b>Key Decision</b>	<b>No</b>	<b>Item No. 5</b>
<b>Ward</b>	<b>ALL</b>	
<b>Contributors</b>	<b>Executive Director for Resources and Regeneration</b>	
<b>Class</b>	<b>Part 1</b>	<b>Date: 8<sup>th</sup> June 2016</b>

## 1 SUMMARY AND PURPOSE

- 1.1 This presents the London Borough of Lewisham’s Pension Fund Audit Plan for year-ending 31<sup>st</sup> March 2016. It provides an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. The document is designed to help Panel members’ understanding the consequences of Grant Thornton’s work, discuss issues of risk and the concept of materiality and to discuss areas where members may request that the auditors to undertake additional procedures.
- 1.2 Grant Thornton is responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.
- 1.3 The Pension Fund Audit Plan includes information on:
  - Developments and other requirement relevant to the audit
  - The audit approach
  - Significant and other risks identified

## 2 LEGAL IMPLICATIONS

- 2.1 Grant Thornton is required to perform their audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office on behalf of the Comptroller and Auditor General in April 2015.

## 3 OTHER IMPLICATIONS

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

## APPENDICES

Appendix 1 – The Pension Fund Audit Plan for the London Borough of Lewisham 2015/16

**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

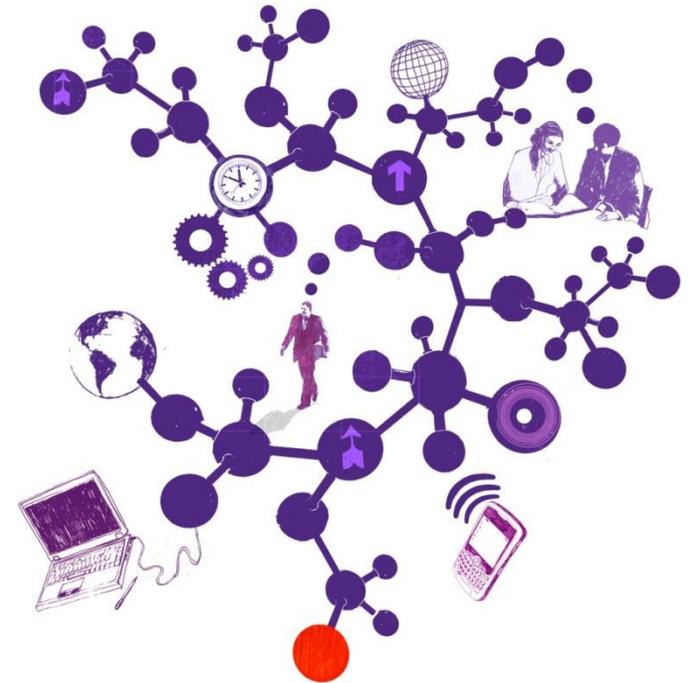
# The Audit Plan for The London Borough of Lewisham Pension Fund

Year ending 31 March 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. 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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April 2016

Dear Members of the Audit Panel

### **Audit Plan for London Borough of Lewisham Pension Fund for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of the Audit Panel (as those charged with governance), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), 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.

Yours sincerely

Darren Wells

Engagement Lead

#### **Chartered Accountants**

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals are to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

### 2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

### 3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

### 4. Local Government Outsourcing

- As many councils look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.

### 5. Earlier closedown of accounts

- The Accounts and Audit Regulations 2015 require funds to bring forward the approval of draft accounts and the audit of financial statements to the 31 May and 31 July respectively by the 2017/18 financial year.



## Our response

- We will continue to discuss with officers their plans for asset pooling and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of any proposals for pooling investments.

- Through our regular liaison with officers we will consider the financial impact of any significant changes in admitted bodies.

- We will work with you to identify areas of your accounts production where you can learn from good practice in others.
- We aim to complete all substantive work in our audit of your financial statements by early July 2016 as a 'dry run'

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Financial Pressures

- Pension funds are increasingly disinvesting from investment assets to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

### 2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

### 3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems in place to maintain and report on this data.

### 4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- Last year CIPFA produced guidance aimed at improving the transparency of management cost data and suggested that funds should include in the notes to the accounts a breakdown of management costs across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.

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## Our response

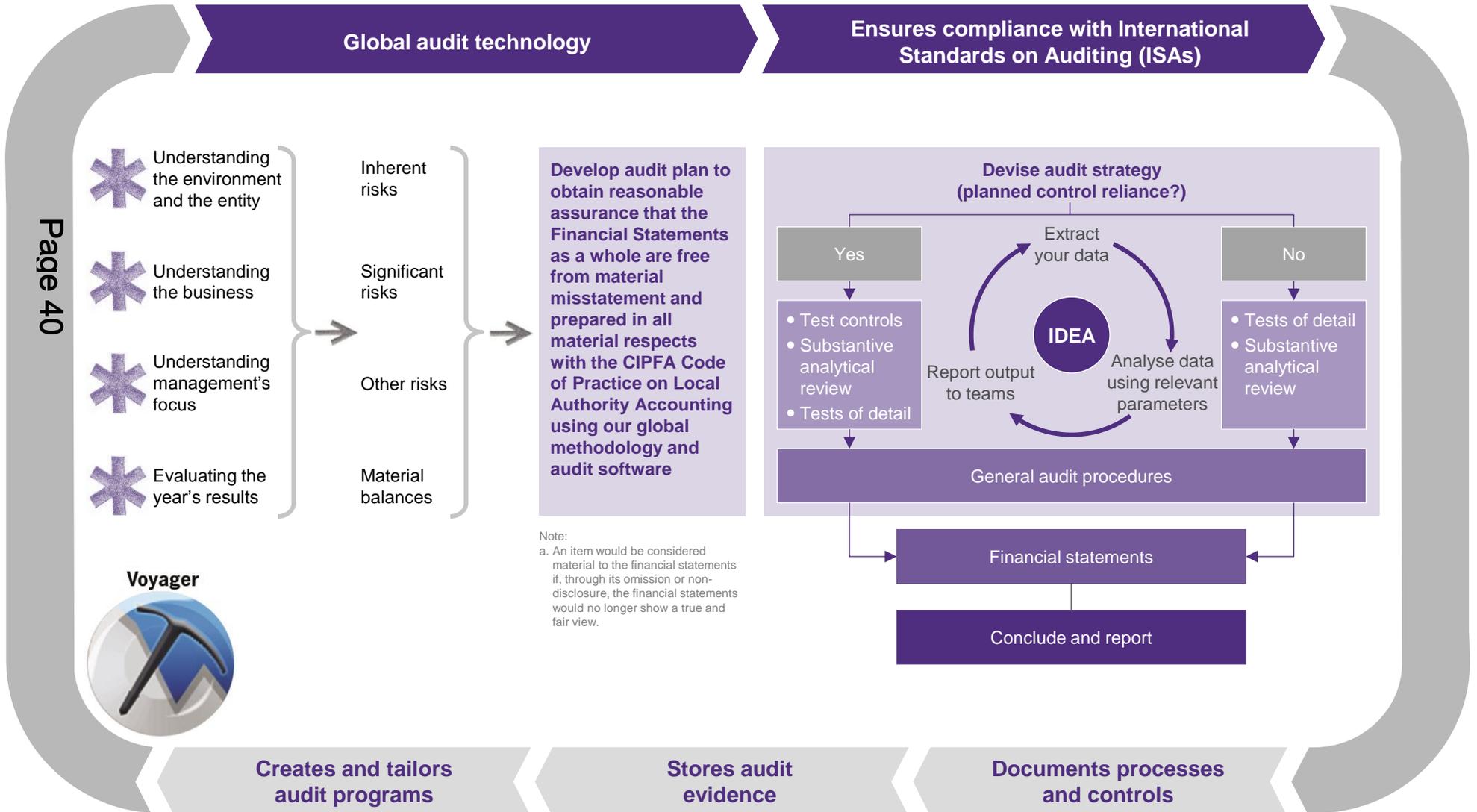
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

# Our audit approach



Note:  
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

---

# Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit we have determined overall materiality to be £10,426k (being 1% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £521k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

# Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions  <b>Page 42</b>	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams for the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Lewisham Council as the administering authority, mean that all forms of fraud are seen as unacceptable.</li> </ul>
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Review of unusual significant transactions</li> </ul>
Level 3 Investments – Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgmental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have performed walkthrough tests of the controls identified in the cycle.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• For a sample of investments, test valuations by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31<sup>st</sup> March with reference to known movements in the intervening period.</li> <li>• To 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.</li> </ul>

# Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough tests of controls on investments</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>
Investment purchases and sales	Investment activity not valid. (Valuation Gross)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough tests of controls on investments</li> </ul> <p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>We will review the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and seek explanations for variances</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough tests of controls on investments</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Test a sample of contributions to source data to gain assurance over their accuracy and occurrence.</li> <li>Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.</li> </ul>

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## Other risks identified (continued)

Other risks	Description	Audit approach
Member Data	Member data not correct. (Rights and Obligations)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough tests of controls on investments</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Sample testing of changes to member data made during the year to source documentation</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>Walkthrough tests of controls on investments</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Controls testing over, completeness, accuracy and occurrence of benefit payments,</li> <li>Test a sample of individual pensions in payment by reference to member files.</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.</li> </ul>

---

# Other risks identified (continued)

## **Other material balances and transactions**

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include

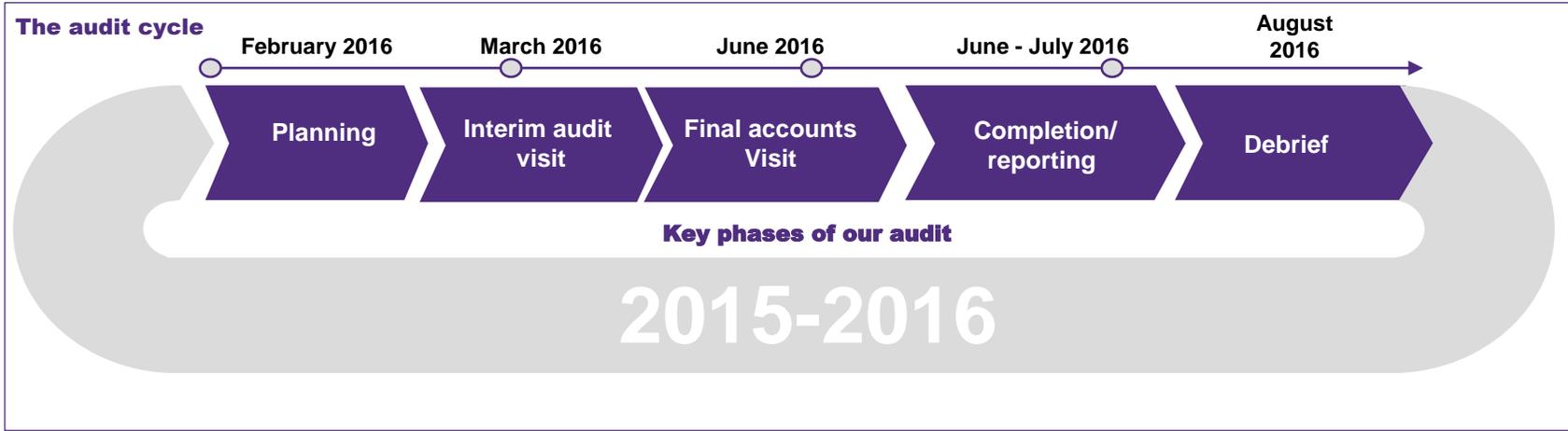
- Administrative expenses
- Cash deposits
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
- Administrative expenses

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## **Other audit responsibilities**

We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.

# Key dates



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<b>Date</b>	<b>Activity</b>
<b>February 2016</b>	Planning
<b>March 2016</b>	Interim site visit
<b>April 2016</b>	Presentation of audit plan to Regulatory and Audit Panel
<b>June 2016</b>	Year end fieldwork
<b>August 2016</b>	Audit findings clearance meeting with Executive Director
<b>September 2016</b>	Report audit findings to those charged with governance (Audit Panel)
<b>September 2016</b>	Sign financial statements opinion

# Fees and independence

## Fees

	£
<b>Total audit fees (excluding VAT)</b>	<b>21,000</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## Fees for other services

Service	Fees £
<b>Non-audit services</b>	<b>Nil</b>

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

## 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 Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

## Respective responsibilities

This Plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Agenda Item 6

AUDIT PANEL		
Report Title	Draft Pre-Audit Statement of Accounts and Annual Governance Statement	
Key Decision	No	Item No.
Ward	All	
Contributors	Executive Director for Resources and Regeneration	
Class	Part 1	Date: 8 <sup>th</sup> June 2016

## REASON FOR LATENESS AND URGENCY

This report was not available for the original despatch as the meeting of the Audit Panel had been brought forward by a week from the timetable set at the start of the municipal year. Furthermore, officers are working to a much shorter timetable than in recent years in preparation of the formal changes which will come into effect for the 2017/18 accounts. The report is urgent and cannot wait until the next meeting of the Audit Panel on 13<sup>th</sup> September 2016 as it will be at this meeting that the final accounts and comments from the external auditors are considered before being endorsed at the meeting of full Council on 21<sup>st</sup> September 2016.

Where a report is received less than five clear days before the date of the meeting at which the matter is being considered, then under the Local Government Act 1972, Section 100(b)(4), the Chair of the Committee can take the matter as a matter of urgency if he is satisfied that there are special circumstances requiring it to be treated as a matter of urgency. These special circumstances have to be specified in the minutes of the meeting.

## 1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the pre-audit Statement of Accounts for 2015/16 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 2015/16 is attached as Appendix 1 to this report and the draft Annual Governance Statement (AGS) is attached at Appendix 2. Members should note that the pre-audit Pension Fund accounts will follow on the supplementary agenda despatch for this meeting, but will be considered by Audit Panel members at the same time as the Council's main accounts.

- 2.3 The summary of net expenditure against budgets for 2015/16 was reported to the Public Accounts Select Committee and the Mayor & Cabinet on 1<sup>st</sup> June 2016.

### **3 RECOMMENDATION**

- 3.1 To note this report and the appended documents.

### **4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION**

- 4.1 Officers have prepared the draft pre-audit accounts so as to be able to despatch them to this Panel by 2<sup>nd</sup> June 2016 for their information. The final pre-audit accounts will be finalised and submitted to the external auditors, Grant Thornton on 3<sup>rd</sup> June 2016. This is a month ahead of the official deadline which is the 30<sup>th</sup> June 2016. The pre-audit Pension Fund accounts will be presented to the Pensions Investment Committee on 9<sup>th</sup> June 2016.
- 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.

#### ***Movement in Reserves Statement (MiRS)***

- 4.3 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.

#### ***Comprehensive Income and Expenditure Statement (CIES)***

- 4.4 The CIES sets out the total expenditure by the authority in the 2015/16 financial year, some circa £1.1bn. The format of the CIES is completely different to the Council’s management accounts, which present income and expenditure by Directorate. However, a reconciliation between the two is provided by note 22 to the core financial statements, segmental reporting, which discloses net expenditure by directorate in a form that members will be familiar with from the Financial Results 2015/16 report.

#### ***Balance Sheet***

- 4.5 The balance sheet reports the ‘total equity’ of the Council, and shows that it is similar to that of last year, around £1.29bn as at 31<sup>st</sup> March 2016 compared with some £0.97bn as at March 2015.

#### ***Cash Flow Statement***

- 4.6 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2015/16 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 National Non Domestic Rates (NNDR).

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 the financial position of the authority:

- Notes 13 and 15 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31<sup>st</sup> March 2016
- Note 8 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 8<sup>th</sup> June 2016 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](mailto:paul.calnan@lewisham.gov.uk), ideally at least 24 hours before the meeting.

## **5 ISSUES FOR THE ATTENTION OF MEMBERS**

5.1 In constructing the accounts, officers have applied professional judgements in a number of areas. Some of these areas are where the appropriate treatment is subject to professional debate. Although officers have maintained an open dialogue with the external auditors during the compilation of these accounts, it is possible that the auditors may, during the course of their audit work, come to a different view, and as a result may recommend a different treatment.

5.2 Where future funding is uncertain, consideration needs to be given to 'impairing' (i.e. reducing) the value of assets that might be affected, for example if services are forced to close as a result. Although future government funding is less certain than it has been in previous years, officers are of the view that there is sufficient certainty as regards funding in 2016/17 and subsequent years that such impairments are unnecessary.

5.3 Other areas where officers have been required to make judgements about possible future events include issues such as judging the amounts of the debts due to it that

may ultimately not be paid and more technical issues such as the actuarial assumptions to apply to value future pension liabilities.

- 5.4 In considering 2013/14 accounts, it was concluded that full consolidated group accounts for the Council were not required on the grounds of materiality. This approach was again taken for 2014/15 and has continued for the 2015/16 accounts. The Council's group interests are disclosed by means of the note on 'Investment in Companies' (note 24).

## **6 FINANCIAL IMPLICATIONS**

- 6.1 The accounts are a financial document and present a picture of the Council's activities in 2015/16 and its assets and liabilities as at 31<sup>st</sup> March 2016. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

## **7 LEGAL IMPLICATIONS**

- 7.1 Regulation 8(2) of the Accounts and Audit Regulations 2011 (the Regulations) means that local authorities are no longer required to obtain elected Members' approval of their pre-audit accounts. Regulation 8(3)(b) does 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.
- 7.2 The Regulations do require that the draft accounts are approved for issue by 30<sup>th</sup> June, 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.

## **8 OTHER IMPLICATIONS**

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

## **APPENDICES**

Appendix 1 – Pre-Audit Statement of Accounts 2015/16  
Appendix 2 – Annual Governance Statement (AGS) 2015/16  
Appendix 3 – Pre-Audit Pension Fund Accounts 2015/16 – To follow

## **BACKGROUND PAPERS**

Financial Results 2015/16 (Mayor & Cabinet meeting 1<sup>st</sup> June 2016)

### **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**

**2015 / 2016 DRAFT STATEMENT OF ACCOUNTS  
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**Narrative Statement**

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**NARRATIVE STATEMENT BY THE EXECUTIVE DIRECTOR FOR RESOURCES  
AND REGENERATION**

**1. INTRODUCTION**

This Statement of Accounts reports the financial results of all the Council's operations for the financial year 2015/16 and shows the Council's financial position as at 31<sup>st</sup> March 2016. The Accounts have been compiled in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice for Local Authorities (SERCOP) 2015/16, jointly developed by CIPFA and the Accounting Standards Board. These constitute proper accounting practice with which Local Authorities must by statute comply and include adherence to International Financial Reporting Standards (IFRS). There are no fundamental changes to the basis on which the Accounts have been compiled for 2015/16 compared to previous years.

**2. THE COUNCIL'S STATEMENT OF ACCOUNTS**

The Statement of Accounts comprises this Narrative Statement, a Statement of Responsibilities, an External Auditor's report (which will be inserted upon completion of the external audit), the Core Financial Statements and other statutory Accounts as set out below. A review has again concluded that Group Accounts are not required to be prepared for the year.

**Section 1 – The Core Financial Statements**

**Section 1a - Movement in Reserves Statement (MiRS)**

This statement shows the movement in the different reserves held by the Council during the year, analysed into 'usable reserves' and 'unusable reserves'. The Surplus or (Deficit) on the Provision of Services line shows the true cost of providing the Council's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance and the Housing Revenue Account for Council Tax and dwellings rent setting purposes respectively. The Net Increase / Decrease before Transfers to Earmarked Reserves line show the statutory General Fund and Housing Revenue Account Balances.

**Section 1b – Comprehensive Income and Expenditure Statement (CIES)**

This statement shows the accounting cost in the year of providing the Council's services in accordance with IFRS, rather than the amount to be funded from taxation. Council's raise taxes to cover expenditure in accordance with regulations; this may be different from the accounting cost.

**Section 1c - Balance Sheet**

The Balance Sheet shows the value of the assets and liabilities recognised by the Council at the end of the year. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. There are two types of reserve, 'usable' and 'unusable'. Usable reserves are those that can be used to provide services, subject to keeping a prudent level of reserves and any statutory limitations on their use. Unusable reserves are those that cannot be used to provide services. They include unrealised gains and losses where amounts only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the MiRS line 'Adjustments between accounting basis and funding basis under regulations'. The Balance Sheet includes the Housing Revenue Account and the Council's own share of the Collection Fund, but excludes the Pension Fund and Trust Funds.

**Section 1d - Cash Flow Statement**

This statement shows the changes in cash and cash equivalents of the Council during the year and how it generates and uses these by classifying cash flows into operating, investing and financing activities. Operating activities show how the Council is funded by taxation, grant income and service users. Investing activities show the extent to which cash outflows have been made for resources which contribute to the Council's future service delivery. Financing activities identify claims on future cash flows by providers of capital (i.e. borrowing) to the Council. The indirect method of compilation has been used.

---

**Narrative Statement**


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**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 - Glossary**

This explains some technical and commonly used terms.

**Section 7 – 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 8 – 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.

**3. REVENUE BUDGET****3a 2015/16 Revenue Budget Setting and Funding**

The Council set a net budget requirement of £246.2m for 2015/16 at its meeting on 25<sup>th</sup> February 2015. This was a decrease of £21.9m or 8.2% on the previous year's net budget requirement of £268.1m.

The main sources of income were the Council Tax and the Government determined Settlement Funding Assessment (SFA), which comprised Non-Domestic Rates (NDR) and Revenue Support Grant (RSG). The amount determined to be raised from Council Tax was calculated as shown in the following table.

**2015/16 Revenue Budget Funding**

	<b>2015/16</b> <b>£000</b>	<b>2014/15</b> <b>£000</b>
<b>Lewisham's Net Budget Requirement</b>	<b>246,224</b>	268,062
Less: Revenue Support Grant	<b>(74,913)</b>	(102,606)
Less: NDR received from the national pool	<b>(86,363)</b>	(84,744)
Less: Surplus on Collection Fund	<b>(4,864)</b>	(2,309)
<b>General Fund Services to be met from Council Tax</b>	<b>80,084</b>	<b>78,403</b>
Add: Precept (GLA)	<b>23,652</b>	22,108
<b>Total to be met from Council Tax</b>	<b>103,736</b>	<b>100,511</b>

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**Narrative Statement**


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**3b 2015/16 Revenue Budget Outturn**

During 2015/16, the overall overspend against the directorates' net controllable budgets was £6.3m. After applying the sum of £3.2m which was set aside in setting the 2015/16 budget for 'risks and other budget pressures', this brought the final directorate overspend down to £3.1m. The reasons for these variances were reported to the Mayor and Cabinet on the 1st June 2016.

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 help bring spending back into line with budget. These measures have included the strengthening of local controls on particular expenditure in the short term. In addition to this and with regards to the most significant budget pressures which the Council faces in 'no recourse to public funds' and 'children's social care' which ended the year at a combined overspend of £6.3m, officers have provided sharper focus on tackling the activities which are driving these costs.

**3c 2016/17 Revenue Budget Outlook**

The Council set a net budget requirement of £236.2m for 2016/17 at its meeting on 24<sup>th</sup> February 2016, which is £10.0m lower than the equivalent figure for 2015/16. The Council has again made significant savings reductions of £18.2m to its budget and added £7.5m to provide for the significant spending pressures which are being experienced. An amount of £10.9m 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 reductions continues.

Notwithstanding the pressures on 'no recourse to public funds' and 'children's social care' there still remains a number of significant budget pressures in other areas across the Council. In the main, these include pressures on service areas such as adult social care, temporary bed and breakfast accommodation and environmental services. All of these pressures go towards demonstrating the significant financial challenge the Council is currently experiencing and will continue to face over the course of the medium term.

**4. COUNCIL TAX AND NON-DOMESTIC RATES (NDR)****4a Council Tax Levels and the Tax Base**

The actual Council Tax charge is determined by dividing the net amounts to be met from Council Tax by the tax base, which for Lewisham is 75,526 equivalent Band D properties for 2015/16 (73,941 for 2014/15).

	<b>2015/16</b>	<b>2014/15</b>	<b>Variation</b>	<b>Variation</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>%</b>
LB Lewisham's Demand	<b>1,060.35</b>	1,060.35	0.0	0.0
Preceptor Requirements:				
Add: Greater London Authority	<b>295.00</b>	299.00	-4.0	-1.3
<b>Council Tax for Band D</b>	<b>1,355.35</b>	1,359.35	-4.0	-0.3

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**Narrative Statement**


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**4b Council Tax and Non-Domestic Rates Collection Rates**

	<b>2015/16</b> %	<b>2014/15</b> %	<b>2013/14</b> %
Council Tax	<b>94.5</b>	95.1	94.8
Non-Domestic Rates	<b>99.7</b>	99.4	99.1

**5. CAPITAL PROGRAMME****5a 2015/16 Capital Programme**

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 80%. A number of budget underspends, mainly on housing schemes, have been carried forward to 2016/17.

	<b>2015/16</b> <b>Final</b> <b>Outturn</b> £m	<b>2015/16</b> <b>Budget Report</b> <b>(24 Feb 2016)</b> £m	<b>2014/15</b> <b>Final</b> <b>Outturn</b> £m
<b>CAPITAL PROGRAMME EXPENDITURE</b>			
General Fund	<b>72.1</b>	<b>79.3</b>	<b>69.7</b>
Housing Revenue Account	<b>22.0</b>	<b>38.8</b>	<b>53.0</b>
<b>Total Spent</b>	<b>94.1</b>	<b>118.1</b>	<b>122.7</b>
<b>CAPITAL PROGRAMME FINANCING</b>			
Borrowing	<b>12.6</b>		<b>3.5</b>
Capital Grants	<b>49.2</b>		<b>88.8</b>
Capital Receipts	<b>11.6</b>		<b>4.3</b>
Capital Expenditure Financed from Revenue	<b>20.7</b>		<b>26.1</b>
<b>Total Financed</b>	<b>94.1</b>		<b>122.7</b>

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**Narrative Statement**


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The expenditure on major projects in the 2015/16 capital programme was:-

	<b>2015/16 Expenditure £m</b>
<b>Major Projects of over £1m</b>	
<b>General Fund</b>	
Primary Places Programme (inc Expansion)	32.0
Building Schools for the Future (BSF) – Design and Build Programme	5.7
Highways and Bridges Improvement Works (inc TfL programmes)	7.3
Schools Works and Upgrades	5.9
Housing Regeneration Schemes	1.5
Asset Management Programme	1.0
Acquisition and Conversion of Properties	12.5
<b>Housing Revenue Account</b>	
Decent Homes programme	11.6
Other Major Works to Dwellings	10.4

### 5b 2016/17 Capital Programme

The Council set its capital programme budget at its meeting on 24<sup>th</sup> February 2016. This outlined the Council's programme of £337m for the years 2016/17 to 2019/20. A major part of the of the General Fund programme is focused on schools with the Primary Places Programme well underway and the major BSF secondary school refurbishment and rebuild programme nearly completed. The implementation of Housing self-financing has given the Council the opportunity to invest in new housing stock, and the decent homes programme will be completed during the year. The Council is also undertaking a number of development and regeneration schemes which utilise and maximise the value of its assets.

	<b>2016/17 Budget £m</b>
<b>2016/17 Capital Programme</b>	
<b>General Fund</b>	
Lewisham Homes – Property Acquisition	4.0
Primary Places Programme (inc Expansion)	6.0
Schools Works and Upgrades	3.4
Highways and Bridges Improvement Works (inc TfL programmes)	6.0
Housing Regeneration Schemes	7.7
Town Centres & High St. Improvements	3.6
Asset Management Programme	3.1
Other Schemes	9.3
	<b>43.1</b>
<b>Housing Revenue Account</b>	<b>86.1</b>
<b>Total Capital Programme</b>	<b>129.2</b>

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**Narrative Statement**

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**6. FINANCIAL HEALTH****6a General Fund**

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 2.5% of Lewisham's Net Budget Requirement and the Dedicated Schools Grant expenditure. The Council also has a number of earmarked reserves for specific on-going initiatives and these are shown in Note 8 to the Core Financial Statements.

**6b Housing Revenue Account (HRA)**

The HRA spent to budget after transfers to reserves as at 31<sup>st</sup> March 2016. 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. Examples include the housing regeneration taking place in both Catford and Ladywell. 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 £80.4m (£65.3m as at 31<sup>st</sup> March 2015). 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.

**6c Collection Fund**

The Collection Fund had a deficit of £2.0m for the year, which when added to the brought forward surplus of £3.5m gives a surplus of £1.5m to carry forward to 2016/17. The details are shown in the Collection Fund statements in Section 5 of the Accounts.

**7. SIGNIFICANT EVENTS IN 2015/16 THAT HAVE HAD AN IMPACT ON THE ACCOUNTS****7(a) National Deficit Reduction Strategy**

The Government's strategy to reduce the national deficit over the lifetime of the previous Parliament has had a major effect on the Council's current and future funding plans. It has also had a direct effect on the 2015/16 Accounts, with termination costs of £6.3m (£5.8m in 2014/15) being incurred during the year as the Council has implemented further reductions in staff in response to the constrained funding climate (see Note 26c to the Core Financial Statements).

**7(b) Pension Fund Valuation**

The Pension Fund's value reduced over the year by £1m from £1,043m to £1,042m (0.1%). More detailed information is set out in the Pension Fund accounts.

**7(c) No Recourse to Public Funds Clients**

There was overspending in the year of £2.2m in respect of clients with 'no recourse to public funds', including bed & breakfast temporary accommodation and section 17 payments. These are families who seek support under Section 17 of the Children's Act because they claim they have no financial means of supporting themselves whilst they are in the process of attempting to regularise their stay in the UK with the Home Office. The client numbers have fallen to fewer than 200 from their peak at the start of the year of 297 clients.

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**Narrative Statement**

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**7(d) Strategic Housing**

There was overspending of £2.5m for costs in accommodating homeless people in temporary accommodation. Over the past few years the number of homeless approaches to the Council has increased significantly, mainly due to changes in housing benefit legislation and the changing housing market where private sector rents have seen a marked increase. The Council have a duty to house families and individuals after each case is assessed and duty is formally accepted. Inadequate levels of housing stock, has seen the increased use of temporary accommodation. To tackle pressures caused by homelessness the Council has invested in a Hostel acquisition programme.

**7(e) Minimum Revenue Provision (MRP) Policy**

The Council is preparing its financial statements on a revised MRP policy that more accurately recognises and reflects the underlying asset classes that the Council holds. This change in policy has yielded a once-off saving of £4.92m in 2015/16 and will save a further £0.45m in 2016/17; and then approximately £1m per year for 2017/18 and future years.

**7(f) Dedicated Schools Grant**

There were two secondary schools with licenced deficit budgets at the end of 2015/16. These were Sedgehill at £1.3m and Deptford Green at £0.5m. There was one primary school with a licensed deficit, being All Saints at £0.03m. At the end of the financial year there are a further nine schools which have deficit balances totalling circa £0.9m which will need to apply for a licensed deficit.

**7(g) Accounting Policy**

The 2015/16 has seen a change in accounting policy relating to the adoption of IFRS 13 (Fair Value Measurement) for surplus non-current assets and its effect on investment properties. For further information, see paragraphs 22b and 24 of Section 2 – Statement of Accounting Policies.

**7(h) Savings**

The Council completed a voluntary severance exercise in 2015/16 which resulted in 76 people leaving the Council's employment. This was in addition to a number of service reorganisations as part of the revenue budget savings implemented in 2015/16

**7(i) Government Funding and Business Rates Retention**

Funding changes for local government announced in 2015/16 confirmed continued reductions in funding for local authorities and moves for authorities to become self-financing from business rates and council tax with no or minimal revenue support grant by 2020/21. The Council used reserves in 2015/16 to balance the budget and will do so again in 2016/17. For 2016/17 this will be on top of raising both the Adult Social Care precept at 2.00% and maximum Council Tax increase without a referendum at 1.99%. It is also worth noting that the next property valuation for business rates is underway; the system is changing following the 'check, challenge, appeal' consultation, and a number of appeals/ considerations are pending a decision (e.g. Virgin Media, NHS Trusts).

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**Narrative Statement**

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## **8. THE COUNCIL'S STRATEGIES AND OVERALL PERFORMANCE**

### **a) Our Vision and Priorities**

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 the Lewisham's Sustainable Community Strategy 2008-2020 (which can be viewed on the Council's website).

#### Lewisham's Sustainable Community Strategy priorities

Shaping our Future Lewisham's Community Strategy 2008 - 2020 contains the shared priorities for the borough. The Lewisham Strategic Partnership agreed a set of 6 key priority outcomes which form the basis for public action locally.

#### Lewisham's corporate priorities

The Council's ten corporate priorities determine what contribution the Council will make towards delivery of the 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.

### **b) Our Goals**

- 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.

### **c) Key Performance Indicators for Corporate Priorities**

Our key performance indicators are published in our Management Report, the purpose of which is to place on record each month, in a consistent format, 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 gives some coverage to the effectiveness of our partnership working. Reporting on performance is always double-edged. We have high ambitions and targets which are set to stretch management and staff effort. So, there are areas where the need for greater management attention is highlighted. The full Management Report can be viewed on the Council's website.

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**Narrative Statement**

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**Performance:** Performance is being reported for March 2016. There are 9 performance indicators (47 per cent) reported as green or amber against target, and 8 (42 per cent) are showing an upward direction of travel. There are 10 performance indicators (53 per cent) reported as red against target and 10 performance indicators (53 per cent) which have a Red direction of travel. There are 4 indicators that have missing performance data.

**Projects:** Projects are being reported for March 2016. There are no red projects this month.

**Risks:** Risks are being reported for March 2016. There are nine red corporate risks - ICT infrastructure is not fit for purpose and/or does not meet business needs; noncompliance with Health & Safety legislation; financial failure and inability to maintain service delivery within a balanced budget; loss of income to the Council; failure of safeguarding arrangement; loss of constructive employee relations; information governance failure; failure to maintain sufficient management capacity and capability to deliver business as usual and implement transformational change; and strategic programme to develop and implement transformational change does not deliver. There are 11 amber risks and one risk is rated green.

The detailed tables of Key Performance Indicators (KPI's) can be found on the Council's website at the following link:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/performance/Pages/Latest-council-performance>

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**Statement of Responsibilities & Independent Auditor's Report**

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## **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 2016.**

### **Janet Senior CPFA**

Executive Director for Resources and Regeneration

**Day / Month 2016**

I confirm that these accounts were approved by the Council at the meeting held on **Day / Month 2016**

Signed on behalf of the London Borough of Lewisham:

Councillor  
Chair of Council

**Dated: Day / Month 2016**

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**Statement of Responsibilities & Independent Auditor's Report**

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

**TO FOLLOW IN AUDITED ACCOUNTS**

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**Statement of Responsibilities & Independent Auditor's Report**

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**Statement of Responsibilities & Independent Auditor's Report**

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**Statement of Responsibilities & Independent Auditor's Report**

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## Core Financial Statements

## SECTION 1 - CORE FINANCIAL STATEMENTS

## MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2016

YEAR ENDING 31ST MARCH 2016	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 Council Reserves £000
Balance at 31 March 2015 Brought Forward	13,000	140,846	35,912	29,364	48,191	10,958	278,271	696,347	974,618
<b>Movement in Reserves during 2015/16</b>									
Surplus or (Deficit) on the provision of services	(5,932)	0	(9,821)	0	0	0	(15,753)	0	(15,753)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	333,926	333,926
<b>Total Comprehensive Income and Expenditure</b>	<b>(5,932)</b>	<b>0</b>	<b>(9,821)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(15,753)</b>	<b>333,926</b>	<b>318,173</b>
Adjustments between accounting basis and funding basis under regulations (see note 7)	4,374	0	28,671	(3,757)	10,798	(2,809)	37,277	(37,277)	0
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>(1,558)</b>	<b>0</b>	<b>18,850</b>	<b>(3,757)</b>	<b>10,798</b>	<b>(2,809)</b>	<b>21,524</b>	<b>296,649</b>	<b>318,173</b>
Transfers to / (from) Earmarked Reserves	1,558	(1,558)	(11,868)	11,868	0	0	0	0	0
<b>Increase / (Decrease) in 2015/16</b>	<b>0</b>	<b>(1,558)</b>	<b>6,982</b>	<b>8,111</b>	<b>10,798</b>	<b>(2,809)</b>	<b>21,524</b>	<b>296,649</b>	<b>318,173</b>
Balance at 31 March 2016 Carried Forward	13,000	139,288	42,894	37,475	58,989	8,149	299,795	992,996	1,292,791

## Core Financial Statements

## MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2015

YEAR ENDING 31ST MARCH 2015	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 Council Reserves £000
Balance at 31 March 2014 Brought Forward	12,000	137,524	26,546	19,787	19,446	11,777	227,080	812,800	1,039,880
<b>Movement in Reserves during 2014/15</b>									
Surplus or (Deficit) on the provision of services	(152,445)	0	5,152	0	0	0	(147,293)	0	(147,293)
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	82,031	82,031
<b>Total Comprehensive Income and Expenditure</b>	<b>(152,445)</b>	<b>0</b>	<b>5,152</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(147,293)</b>	<b>82,031</b>	<b>(65,262)</b>
Adjustments between accounting basis and funding basis under regulations (see note 7)	156,767	0	18,272	(4,481)	28,745	(819)	198,484	(198,484)	0
<b>Net Increase / (Decrease) before Transfers to Earmarked Reserves</b>	<b>4,322</b>	<b>0</b>	<b>23,424</b>	<b>(4,481)</b>	<b>28,745</b>	<b>(819)</b>	<b>51,191</b>	<b>(116,453)</b>	<b>(65,262)</b>
Transfers to / (from) Earmarked Reserves	(3,322)	3,322	(14,058)	14,058	0	0	0	0	0
<b>Increase / (Decrease) in 2014/15</b>	<b>1,000</b>	<b>3,322</b>	<b>9,366</b>	<b>9,577</b>	<b>28,745</b>	<b>(819)</b>	<b>51,191</b>	<b>(116,453)</b>	<b>(65,262)</b>
Balance at 31 March 2015 Carried Forward	13,000	140,846	35,912	29,364	48,191	10,958	278,271	696,347	974,618

## Core Financial Statements

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDING 31ST MARCH 2016

2014/15				2015/16			Note
Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	SERVICE	Gross Expenditure £000s	Gross Income £000s	Net Expenditure £000s	
9,556	(4,463)	5,093	Central Services to the Public	9,595	(4,645)	4,950	
19,198	(3,615)	15,583	Cultural and Related Services	20,974	(3,841)	17,133	
38,219	(6,441)	31,778	Environmental and Regulatory Services	36,081	(6,819)	29,262	
13,544	(3,905)	9,639	Planning Services	14,374	(5,458)	8,916	
612,618	(324,799)	287,819	Children's and Education Services	389,908	(333,284)	56,624	
18,494	(4,201)	14,293	Highways and Transport Services	17,358	(3,788)	13,570	
370,154	(396,985)	(26,831)	Housing Services	385,657	(361,057)	24,600	
117,192	(26,763)	90,429	Adult Social Care	115,013	(38,492)	76,521	
20,396	(20,592)	(196)	Public Health	21,612	(18,446)	3,166	
16,315	(12,086)	4,229	Corporate and Democratic Core	18,598	(13,326)	5,272	
6,087	(17)	6,070	Non Distributed Costs	15,322	(15)	15,307	
<b>1,241,773</b>	<b>(803,867)</b>	<b>437,906</b>	<b>Cost of Services</b>	<b>1,044,492</b>	<b>(789,171)</b>	<b>255,321</b>	22
			<b>Other Operating Expenditure</b>				
0	(14,203)	(14,203)	(Gain) / Loss on the disposal of non-current assets	0	(4,262)	(4,262)	
1,646	0	1,646	Levies	1,631	0	1,631	6
1,727	0	1,727	Contribution of housing capital receipts to Government Pool	1,969	0	1,969	18
<b>3,373</b>	<b>(14,203)</b>	<b>(10,830)</b>		<b>3,600</b>	<b>(4,262)</b>	<b>(662)</b>	
			<b>Financing and Investment Income and Expenditure</b>				
24,626	0	24,626	Interest payable and similar charges	26,616	0	26,616	
2,579		2,579	Changes in fair value of Investment Properties	131		131	10
0	0	0	(Gain) / Loss on disposal of Investment Properties	0	0	0	
683	(2,028)	(1,345)	Interest and Investment Income	876	(2,879)	(2,003)	
64,639	(36,002)	28,637	Net interest on the net defined benefit liability	54,493	(31,318)	23,175	36
<b>92,527</b>	<b>(38,030)</b>	<b>54,497</b>		<b>82,116</b>	<b>(34,197)</b>	<b>47,919</b>	
			<b>Taxation and non-specific Grant Income</b>				
0	(80,738)	(80,738)	Income from Council Tax	0	(84,948)	(84,948)	
0	(117,250)	(117,250)	General Government Grants	0	(77,587)	(77,587)	
0	(51,548)	(51,548)	Recognised Capital Grants and Contributions	0	(37,346)	(37,346)	
0	(84,744)	(84,744)	Non-Domestic Rates redistribution	0	(86,944)	(86,944)	
<b>0</b>	<b>(334,280)</b>	<b>(334,280)</b>		<b>0</b>	<b>(286,825)</b>	<b>(286,825)</b>	
			<b>Deficit/(Surplus) on provision of services</b>			<b>15,753</b>	22
		<b>(180,306)</b>	Surplus on revaluation of non-current assets			<b>(185,894)</b>	20
		<b>98,275</b>	Remeasurement of the net defined benefit liability			<b>(148,032)</b>	19, 36
		<b>(82,031)</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(333,926)</b>	
		<b>65,262</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>(318,173)</b>	

## Core Financial Statements

BALANCE SHEET AS AT 31ST MARCH 2016  
CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2016

2014/15 £000s		2015/16 £000s	Note
(147,293)	Net surplus or (deficit) on the provision of services	(15,753)	
257,011	Adjustment to surplus or deficit on the provision of services for non-cash movements	142,415	41
(84,477)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(59,116)	42
25,241	<b>Net Cash flows from Operating Activities</b>	67,546	
(42,353)	Net Cash flows from Investing Activities	(49,656)	44
(16,321)	Net Cash flows from Financing Activities	(2,639)	45
(33,433)	<b>Net Increase or (decrease) in Cash and Cash Equivalents</b>	15,251	
116,429	<b>Cash and Cash Equivalents at the beginning of the reporting period</b>	82,996	14
82,996	<b>Cash and Cash Equivalents at the end of the reporting period</b>	98,247	14
125,574	Long Term Borrowing	157,701	11
8,118	Provisions (More than 1 year)	8,347	16
239,002	Deferred PFI Liabilities	240,061	33d
1,201	Capital Grants Receipts in Advance	1,544	
716,722	Liability related to defined benefit pension scheme	601,806	19, 36
1,090,617	<b>Long Term Liabilities</b>	1,009,459	
974,618	<b>NET ASSETS</b>	1,292,791	
13,000	<b>Usable Reserves</b> General Fund Balance	13,000	
140,846	Earmarked Revenue Reserves	139,288	8
35,912	Housing Revenue Account	42,894	HRA 15
29,364	Major Repairs Reserve	37,475	HRA 14
48,191	Usable Capital Receipts Reserve	58,989	18
10,958	Capital Grants Unapplied	8,149	
278,271		299,795	
558,836	<b>Unusable Reserves</b> Revaluation Reserve	726,370	20
861,199	Capital Adjustment Account	875,144	21
113	Deferred Capital Receipts	100	
(5,407)	Financial Instruments Adjustment Account	(4,627)	
(716,722)	Pensions Reserve	(601,806)	19, 36
3,836	Collection Fund Adjustment Account	2,442	Coll Fd 3
(5,508)	Short Term Compensated Absences Account	(4,627)	
696,347		992,996	
974,618	<b>TOTAL EQUITY</b>	1,292,791	

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**Statement of Accounting Policies**

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**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 2011, which requires 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 2015/16 and the SeRCOP 2015/16, 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.

**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. Income from the provision of services or the sale of goods is recognised when it is probable that the economic benefits or service potential associated with the transaction will be received by the Council. Income from Council Tax and Non-Domestic Rates is accounted for in the year it is due. 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 stocks 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. 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.

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**Statement of Accounting Policies**

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## **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 that benefit from the supply or service in accordance with the total absorption costing principles of the SeRCOP. The exceptions below are defined in SeRCOP and accounted for separately as part of the Cost of Services in the CIES.

- Corporate and Democratic Core – costs relating to the Authority's status as a multifunctional, democratic organisation (e.g. member's services, external audit fees).
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any impairment losses chargeable on Assets Held for Sale.

## **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.

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 transfers 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**

Property, Plant and Equipment held under a finance lease is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to

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**Statement of Accounting Policies**

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pay the lessor. Contingent rents are charged as expenses in the periods in which they are incurred. The lease payments are apportioned between a charge for the acquisition of the interest in the property, plant or equipment, which is applied to write down the lease liability, and a finance charge to the Financing and Investment Income and Expenditure line in the CIES. They are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). The Council as lessee did not have any finance leases in 2015/16 (nor in 2014/15).

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, an annual contribution is made from revenue to the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the MiRS for the difference between the two.

**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.

**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.

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**Statement of Accounting Policies**


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**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.

**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 London Pension 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.

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**Statement of Accounting Policies**


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**(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 Non Distributed Costs 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.

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 7 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 has again concluded that the Group's entities are immaterial to the financial statements and therefore there is no requirement under the Code to produce Group Accounts. They have therefore not been prepared for 2015/16. Note 24 - Interest in Companies includes information about the companies.

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**Statement of Accounting Policies**

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**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, retirement and employee benefits and are not available for the Council to use to finance services.

**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.

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**Statement of Accounting Policies**

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**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.

There has been no repurchase or early settlement of borrowing in 2015/16 (nor in 2014/15). 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. Premiums and discounts are split between the General Fund and HRA pro rata to their respective Capital Financing Requirements as at 1 April of the year in which the loan was repaid. 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.

**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.

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**Statement of Accounting Policies**

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**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 minimis 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 does not capitalise costs incurred whilst assets are under construction. 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 – fair value, using the basis of existing use value for social housing (EUV-SH);
- all other assets – fair 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.

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 2015/16 (nor in 2014/15).

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.

The 2015/16 Code of Practice has changed the measurement requirements for Surplus Assets within Property, Plant and Equipment (i.e. assets that are not being used to supply goods and services and that 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.

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**Statement of Accounting Policies**

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**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 to Council Tax, however the Council is required to make a charge (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 MiRS.

**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.

**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:-

- dwellings and other buildings – straight-line allocation over the useful life of the property as determined by the valuer (dwellings are usually over 25 years and buildings over 40 years);
- vehicles, plant and equipment – straight-line allocation over the useful life of the asset;
- infrastructure – straight-line allocation over 25 years, unless advised by a suitably qualified officer.

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.

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**Statement of Accounting Policies**

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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 in excess of £10,000 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.

**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**

These are assets which are used solely to earn rentals and/or for capital appreciation, and are not used in any way for the delivery of services or production of goods or being held for sale. Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. They are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length. They are revalued annually according to market conditions, and are therefore not depreciated. Any gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. These are not statutorily allowed to have an impact on the Council Tax and are therefore reversed out of the General Fund Balance in the MiRS and posted to the Capital Adjustment Account and the Capital Receipts Reserve if relevant.

The adoption of IFRS13 Fair Value Measurement has led to an assessment of the Council's Investment Properties and their reclassification to Property, Plant & Equipment. Upon review they have now been defined under three main areas: (i) assets leased at less than the market rent; (ii) assets leased at market rent but required for services delivered on behalf of the authority; (iii) assets purchased for strategic purposes including regeneration or service improvements. As a result it has been clarified that our Investment Assets under the broad definition are not used solely for income or capital appreciation.

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**Statement of Accounting Policies**

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**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 8 to the Core Financial Statements. An analysis of Dedicated Schools' Grant (the main source of funding for schools) is shown in Note 28. Any critical judgements made relating to accounting for schools' non-current assets (i.e. land and buildings) are shown in Note 2.

## SECTION 3 - NOTES TO THE CORE FINANCIAL STATEMENTS

### 1. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2015/16 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 standard within the 2016/17 Code:-

- Highways Network Asset: the Council owns approximately 390km of roads & footpaths, and these are currently shown on the balance sheet at historic cost less depreciation under the 'infrastructure' category. From 2016/17 these will be valued and reflected in the Council's balance sheet using a valuation method for which further advice is awaited; therefore the effect on the Council's Accounts in the future cannot be quantified at present. In 2016/17 there will be no requirement to restate the 2015/16 comparative figures for these assets.

The Code requires implementation from 1<sup>st</sup> April 2016 and therefore there is no impact on the 2015/16 Statement of Accounts.

### 2. 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:

- 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.
- 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. In 2015/16 the adoption of IFRS13 Fair Value Measurement has 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). Other than this, there are no material changes to these judgements for the 2015/16 Accounts compared to those followed in 2014/15.
- 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 42 Community Primary Schools, 5 Community Secondary Schools, 3 Community Special Schools, 2 Foundation Schools and 2 Nursery Schools (55 schools).
  - Excluded are 24 Voluntary-aided Schools, 3 Foundation Schools, 4 Academies and 4 Other Schools (35 schools).
  - Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above.
- 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 IAS19, rather than as an accrual, provision, reserve or contingent liability. The 2015/16 Accounts therefore include the full costs of the Lewisham Homes IAS19 liability and are consistent with the Council's 2014/15 Accounts and Lewisham Homes' Accounts for both years.

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**Notes to the Core Financial Statements**

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**3. 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 31<sup>st</sup> March 2016 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.

**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 31<sup>st</sup> March 2016 is £2.7m, and so an increase over the forthcoming year of 10% in the total number of claims or in the average settlement could add £0.27m to the provision needed.

**c) Non National Domestic Rates - Appeals**

Since the introduction of the Business Rates Retention Scheme from 1<sup>st</sup> April 2013, Councils are liable for successful appeals against NDR charged to businesses in 2015/16 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 31<sup>st</sup> March 2016, using the Valuation Office (VAO) ratings list of appeals and the analysis of successful appeals to date.

**d) Arrears of Significant Debtors**

The Council had debtors balances of Council Tax, Non Domestic Rates, Housing Rents and sundry others of £123m as at 31<sup>st</sup> March 2016. 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 £64m. 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 £6.4m 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 36).

**4. MATERIAL ITEMS OF INCOME AND EXPENDITURE**

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

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**Notes to the Core Financial Statements**


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**5. EVENTS AFTER THE BALANCE SHEET DATE**

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration on 2<sup>nd</sup> June 2016. 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 31<sup>st</sup> March 2016, the figures in the financial statements and notes have been adjusted in all material respects to reflect these altered conditions. There are no significant events which have occurred after 31<sup>st</sup> March 2016 affecting the 2015/16 accounts – any such events will affect the 2016/17 accounts only.

At the current time, it is likely that Sedgehill secondary school will be converted to academy status, but the academy orders have not yet been issued. The non-current assets for Sedgehill school show a net book value of £35.8m on the Council's balance sheet at 31<sup>st</sup> March 2016. The effect of this transfer (if confirmed) will be reflected in 2016/17 accounts.

**6. 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.

	<b>2015/16</b> <b>£000</b>	<b>2014/15</b> <b>£000</b>
London Pension Fund Authority	1,232	1,243
Lee Valley Regional Park Authority	226	233
Environment Agency	173	170
<b>Total Levies Paid</b>	<b>1,631</b>	<b>1,646</b>

**7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS**

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

2015/16	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b>							
<b>Reversal of items credited or debited to the CIES</b>							
Charges for depreciation and impairment of non-current assets	13,351		30,112				(43,463)
Movements in the market value of Investment Properties							0
Capital grants and contributions applied	(34,758)						34,758
Revenue expenditure funded from capital under statute	11,614						(11,614)
Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	20,916						(20,916)
<b>Insertion of items not debited or credited to the CIES</b>							
Statutory provision for the financing of capital investment	(6,957)		(3,409)				10,366
Capital expenditure charged against the General Fund and HRA balances	(8,203)						8,203
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b>							
Capital Grants and contributions unapplied credited to the CIES						(2,809)	2,809
<b>Adjustments primarily involving the Capital Receipts Reserve:</b>							
Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES	(24,439)				24,439		0
Use of the Capital Receipts Reserve to finance new capital expenditure					(11,659)		11,659
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	1,969				(1,969)		0
Transfer from Deferred Capital Receipts Reserve upon receipt of cash					(13)		13
Balance of Reserved Capital Receipts at Year End							0
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Use of the Major Repairs Reserve to finance new capital expenditure			18,244	(22,001)			3,757
Reversal of Major Repairs Allowance credited to the HRA			(30,112)	30,112			0
Difference between Major Repairs Allowance and HRA depreciation			11,868	(11,868)			0
<b>Adjustments primarily involving the Financial Instruments Adj Account:</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(302)		(478)				780
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	60,946		5,532				(66,478)
Employer's pensions contributions and direct payments to pensioners payable in the year	(30,276)		(3,086)				33,362

## Notes to the Core Financial Statements

2015/16 continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b> Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	1,394						(1,394)
<b>Adjustments primarily involving the Accumulated Absences Account:</b> Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(881)						881
<b>Total Adjustments</b>	<b>4,374</b>	<b>0</b>	<b>28,671</b>	<b>(3,757)</b>	<b>10,798</b>	<b>(2,809)</b>	<b>(37,277)</b>

2014/15 COMPARATIVE FIGURES	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Capital Adjustment Account:</b> <b>Reversal of items credited or debited to the CIES</b> Charges for depreciation and impairment of non-current assets Movements in the market value of Investment Properties Capital grants and contributions applied Revenue expenditure funded from capital under statute Amounts of non-current assets written off on disposal or sale as part of the gain / loss on disposal to the CIES	207,892 2,579 (50,108) 13,595 2,711		24,205    6,473				(232,097) (2,579) 50,108 (13,595) (9,184)
<b>Insertion of items not debited or credited to the CIES</b> Statutory provision for the financing of capital investment Capital expenditure charged against the General Fund and HRA balances	(15,303) (7,791)		(3,094)				18,397 7,791
<b>Adjustments primarily involving the Capital Grants Unapplied Account:</b> Capital Grants and contributions unapplied credited to the CIES						(818)	818
<b>Adjustments primarily involving the Capital Receipts Reserve:</b> Transfer of cash sale proceeds credited as part of the gain / loss on disposal to the CIES Use of the Capital Receipts Reserve to finance new capital expenditure Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool Transfer from Deferred Capital Receipts Reserve upon receipt of cash Balance of Reserved Capital Receipts at Year End	(15,278)   1,727		(20,603)		35,881 (4,315) (1,727) (19)		0 4,315 0 19 1,075

## Notes to the Core Financial Statements

2014/15 COMPARATIVE FIGURES continued	Usable Reserves						Movement in Unusable Reserves £'000
	General Fund Balance £'000	Earmarked GF Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
<b>Adjustments primarily involving the Major Repairs Reserve:</b>							
Use of the Major Repairs Reserve to finance new capital expenditure			12,273	(16,754)			4,481
Reversal of Major Repairs Allowance credited to the HRA			(26,331)	26,331			0
Difference between Major Repairs Allowance and HRA depreciation			14,058	(14,058)			0
<b>Adjustments primarily involving the Financial Instruments Adj Account:</b>							
Amount by which finance costs charged to the CIES are different from finance costs chargeable in the year in accordance with statutory requirements	(300)		(478)				778
<b>Adjustments primarily involving the Pensions Reserve:</b>							
Reversal of items relating to retirement benefits debited or credited to the CIES	48,590		14,590				(63,180)
Employer's pensions contributions and direct payments to pensioners payable in the year	(30,002)		(2,821)				32,823
<b>Adjustments primarily involving the Collection Fund Adjustment Account:</b>							
Amount by which Council Tax income credited to the CIES is different from Council Tax income calculated for the year in accordance with statutory requirements	(779)						779
<b>Adjustments primarily involving the Accumulated Absences Account:</b>							
Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(767)						767
<b>Other Adjustments</b>	1					(1)	0
<b>Total Adjustments</b>	<b>156,767</b>	<b>0</b>	<b>18,272</b>	<b>(4,481)</b>	<b>28,745</b>	<b>(819)</b>	<b>(198,484)</b>

## 8. 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 2015/16 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.

## Notes to the Core Financial Statements

Name of Reserve	Balance 31/03/15 £000	2015/16 Transfers		Balance 31/03/16 £000	
		Out £000	In £000		
Specific Revenue Earmarked	68,998	(14,112)	13,181	<b>68,067</b>	(a)
PFI and BSF Schemes	20,619	(46)	1,704	<b>22,277</b>	(b)
New Homes Bonus Reserve	13,507	(5,229)	8,002	<b>16,280</b>	
Insurance	14,467	(300)	0	<b>14,167</b>	
Capital Programme Expenditure	5,538	(13,233)	9,391	<b>1,696</b>	(c)
	<b>123,129</b>	<b>(32,920)</b>	<b>32,278</b>	<b>122,487</b>	
Schools Reserves and External Funds	17,717	(24,690)	23,774	<b>16,801</b>	(d)
	<b>17,717</b>	<b>(24,690)</b>	<b>23,774</b>	<b>16,801</b>	
<b>Total</b>	<b>140,846</b>	<b>(57,610)</b>	<b>56,052</b>	<b>139,288</b>	

a) Specific Earmarked Reserves

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

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) Capital Programme Expenditure Reserve

This reserve will be used to finance capital programme expenditure in future years.

d) 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.

**9. 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.

	Council Dwellings £000	Other Land & Buildings £000	Surplus Assets £000	Total £000
<b>Valued at Historic Cost</b>		<b>19,156</b>	<b>1,268</b>	<b>20,424</b>
<b>Valued at Current Value</b>				
2015/16	1,115,721	303,203	72,240	<b>1,491,164</b>
2014/15	38,169	271,248	460	<b>309,877</b>
2013/14	0	33,701	220	<b>33,921</b>
2012/13	0	38,993	0	<b>38,993</b>
2011/12	0	5,355	990	<b>6,345</b>
<b>Total Net Book Value</b>	<b>1,153,890</b>	<b>671,656</b>	<b>75,178</b>	<b>1,900,724</b>

## Notes to the Core Financial Statements

## b) Movements in Non-Current Assets

The movements in non-current assets during 2015/16 were as follows:

2015/16	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
<b>Gross Book Value b/fwd at 1st April 2015</b>	<b>1,060,622</b>	<b>610,423</b>	<b>56,105</b>	<b>138,449</b>	<b>8,854</b>	<b>52,932</b>	<b>29,604</b>	<b>1,956,989</b>
Additions	109	36,029	3,052	15,737	284	6,438	27,584	89,233
Revaluations (recognised in Revaluation Reserve)	106,632	24,008	0	0	0	30,974	0	161,614
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	7,063	(23,490)	0	0	0	(2,943)	0	(19,370)
Impairments (recognised in Revaluation Reserve)	(29)	(958)	0	0	(30)	(5,109)	0	(6,126)
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	(80)	(185)	(52)	0	(548)	(8,308)	0	(9,173)
Disposals	(5,624)	0	(1,356)	0	(357)	(12,276)	0	(19,613)
Transfers	(11,120)	39,121	1,226	402	(1,040)	13,761	(24,254)	18,096
Assets reclassified to/from Held for Sale	0	0	0	0	0	0	0	0
<b>Gross Book Value c/fwd at 31st March 2016</b>	<b>1,157,573</b>	<b>684,948</b>	<b>58,975</b>	<b>154,588</b>	<b>7,163</b>	<b>75,469</b>	<b>32,934</b>	<b>2,171,650</b>
<b>Depreciation b/fwd at 1st April 2015</b>	<b>(2,531)</b>	<b>(14,056)</b>	<b>(25,706)</b>	<b>(43,410)</b>	<b>(4)</b>	<b>(867)</b>	<b>0</b>	<b>(86,574)</b>
Depreciation for year	(29,465)	(14,065)	(5,006)	(5,769)	(4)	(992)	0	(55,301)
Depreciation written back on:								
Transfers	314	277	0	0	0	(591)	0	0
Revaluations (recognised in Revaluation Reserve)	25,879	4,053	0	0	0	473	0	30,405
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,099	10,542	0	0	0	718	0	13,359
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	0
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	(43)	46	0	0	39	0	42
Assets Sold	21	0	1,356	0	0	929	0	2,306
<b>Depreciation c/fwd at 31st March 2016</b>	<b>(3,683)</b>	<b>(13,292)</b>	<b>(29,310)</b>	<b>(49,179)</b>	<b>(8)</b>	<b>(291)</b>	<b>0</b>	<b>(95,763)</b>
<b>Net Book Value at 31st March 2016</b>	<b>1,153,890</b>	<b>671,656</b>	<b>29,665</b>	<b>105,409</b>	<b>7,155</b>	<b>75,178</b>	<b>32,934</b>	<b>2,075,887</b>

## Notes to the Core Financial Statements

The movements in non-current assets during 2014/15 were as follows:

2014/15	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
<b>Gross Book Value b/fwd at 1st April 2014</b>	<b>883,366</b>	<b>807,360</b>	<b>75,927</b>	<b>145,899</b>	<b>9,364</b>	<b>39,148</b>	<b>26,327</b>	<b>1,987,391</b>
Additions	2,698	20,090	3,148	10,577	12	6,785	24,266	<b>67,576</b>
Revaluations (recognised in Revaluation Reserve)	172,413	(11)	0	0	0	589	0	<b>172,991</b>
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	8,368	(172,623)	(349)	0	0	(3,328)	0	<b>(167,932)</b>
Impairments (recognised in Revaluation Reserve)	0	(15,018)	0	0	(2)	(7)	0	<b>(15,027)</b>
Impairments (recognised in Surplus/Deficit on the Provision of Services)	0	(26,362)	(24,297)	(18,599)	(564)	(628)	0	<b>(70,450)</b>
Disposals	(6,505)	(881)	0	0	0	(1,596)	0	<b>(8,982)</b>
Transfers	282	(2,132)	1,676	572	44	11,969	(20,989)	<b>(8,578)</b>
Assets reclassified to/from Held for Sale	0	0	0	0	0	0	0	<b>0</b>
<b>Gross Book Value c/fwd at 31st March 2015</b>	<b>1,060,622</b>	<b>610,423</b>	<b>56,105</b>	<b>138,449</b>	<b>8,854</b>	<b>52,932</b>	<b>29,604</b>	<b>1,956,989</b>
<b>Depreciation b/fwd at 1st April 2014</b>	<b>(1,333)</b>	<b>(16,412)</b>	<b>(44,170)</b>	<b>(56,761)</b>	<b>0</b>	<b>(829)</b>	<b>0</b>	<b>(119,505)</b>
Depreciation for year	(25,562)	(13,965)	(4,544)	(5,242)	(4)	(565)	0	<b>(49,882)</b>
Depreciation written back on:								
Transfers	(160)	(19)	(255)	(2)	0	284	0	<b>(152)</b>
Revaluations (recognised in Revaluation Reserve)	17,929	5,401	0	0	0	223	0	<b>23,553</b>
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	6,563	10,191	37	0	0	13	0	<b>16,804</b>
Impairments (recognised in Revaluation Reserve)	0	0	0	0	0	0	0	<b>0</b>
Impairments (recognised in Surplus/Deficit on the Provision of Services)	0	652	23,226	18,595	0	1	0	<b>42,474</b>
Assets Sold	32	96	0	0	0	6	0	<b>134</b>
<b>Depreciation c/fwd at 31st March 2015</b>	<b>(2,531)</b>	<b>(14,056)</b>	<b>(25,706)</b>	<b>(43,410)</b>	<b>(4)</b>	<b>(867)</b>	<b>0</b>	<b>(86,574)</b>
<b>Net Book Value at 31st March 2015</b>	<b>1,058,091</b>	<b>596,367</b>	<b>30,399</b>	<b>95,039</b>	<b>8,850</b>	<b>52,065</b>	<b>29,604</b>	<b>1,870,415</b>

## Notes to the Core Financial Statements

## 10. INVESTMENT PROPERTIES

Note: Investment Properties have all been reclassified to Property, Plant & Equipment during 2015/16; hence the reduction of the balance to nil. (For further details, see Note 24 – Investment Properties – in Accounting Policies.)

	2015/16 £000	2014/15 £000
<b>a) In Comprehensive Income and Expenditure Statement</b>		
Operating Expenses	0	296
Rents - Shops	0	(1,031)
Rents - Industrial and Commercial Properties and Aerial Sites	0	(953)
<b>Net Income from Investment Properties</b>	<b>0</b>	<b>(1,688)</b>

	2015/16 £000	2014/15 £000
<b>b) Movement in Fair Value in the Balance Sheet</b>		
<b>Balance at Beginning of Year</b>	<b>22,743</b>	<b>25,658</b>
Disposals	(3,603)	(336)
Net Gains / (Losses) from fair value adjustments	(131)	(2,579)
Transfers to / from PPE	(19,009)	0
<b>Balance at End of Year</b>	<b>0</b>	<b>22,743</b>

## 11. 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		
	31/03/16 £000	31/03/15 £000	31/03/16 £000	31/03/15 £000	
Financial Liabilities (Principal)	157,492	125,376	33,763	65,000	1
Accrued Interest	209	198	1,908	1,884	1
<b>Total Borrowings</b>	<b>157,701</b>	<b>125,574</b>	<b>35,671</b>	<b>66,884</b>	
PFI and Finance Lease liabilities	240,060	239,002	7,706	8,751	
<b>Total Other Liabilities</b>	<b>240,060</b>	<b>239,002</b>	<b>7,706</b>	<b>8,751</b>	
Financial Liabilities at contract amount	-	-	62,471	75,288	2
<b>Total Creditors</b>	<b>-</b>	<b>-</b>	<b>62,471</b>	<b>75,288</b>	

## Notes to the Core Financial Statements

	Long-Term		Current		
	31/03/16 £000	31/03/15 £000	31/03/16 £000	31/03/15 £000	
Loans and Receivables (Principal)	-	-	328,195	312,958	1
Accrued Interest	-	-	814	688	1
<b>Total Investments</b>	-	-	<b>329,009</b>	<b>313,646</b>	
Loans and Receivables	25,734	17,774	-	-	2
Financial Assets at contract amounts	-	-	43,949	66,856	2
<b>Total Debtors</b>	<b>25,734</b>	<b>17,774</b>	<b>43,949</b>	<b>66,856</b>	

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.

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.

**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 2015/16 or 2014/15, or assets classified as Available for Sale):

	2015/16			2014/15
	Liabilities - Amortised Cost £000	Assets - Loans and Receivables £000	Totals £000	Totals £000
Interest Expense	9,070	-	9,070	9,193
<b>Total Expense in Surplus or Deficit on Provision of Services</b>	<b>9,070</b>	<b>-</b>	<b>9,070</b>	<b>9,193</b>
Interest Income	-	(2,403)	(2,403)	(2,009)
<b>Total Income in Surplus or Deficit on Provision of Services</b>	<b>-</b>	<b>(2,403)</b>	<b>(2,403)</b>	<b>(2,009)</b>
<b>Net (Gain) / Loss for the Year</b>	<b>9,070</b>	<b>(2,403)</b>	<b>6,667</b>	<b>7,184</b>

## Notes to the Core Financial Statements

## 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 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 using their own procedures;
- 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 published prices in an active market where available, or by using a valuation technique. These give a reasonable estimate for the fair value of a financial instrument, and includes accrued interest. The comparator market rates prevailing have been taken at each balance sheet date. In practice, rates will be determined by the size of the transaction and the counterparty, but it is impractical to use these figures, and the difference is likely to be immaterial.

The following table shows 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 £104m 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, termed the PWLB Certainty interest rates.

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 redemption 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 £121m.

	Premature Repayment Rate		New Loan Rate		31/03/15	
	31/03/16		31/03/16		Carrying Amount £000	Fair Value £000
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000		
PWLB Debt	78,869	121,476	78,869	104,315	78,859	103,535
Non-PWLB Debt *	114,503	173,345	114,503	140,921	113,599	137,308
<b>Total Debt / Liabilities</b>	<b>193,372</b>	<b>294,821</b>	<b>193,372</b>	<b>245,236</b>	<b>192,458</b>	<b>240,843</b>
Money Market Investments	331,294	331,582	331,294	331,582	311,647	167,794
Long Term Debtors	25,734	25,734	25,734	25,734	17,774	17,774
<b>Total Assets</b>	<b>357,028</b>	<b>357,316</b>	<b>357,028</b>	<b>357,316</b>	<b>329,421</b>	<b>185,568</b>

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

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**Notes to the Core Financial Statements**

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**12. 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.

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 2016 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 & Poors 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 2016 there was no evidence that this was likely to happen.

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**Notes to the Core Financial Statements**


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**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 £0.2m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.2m.

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

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

	31/03/16 £000	31/03/15 £000
Catford Regeneration Partnership Ltd (CRPL) - Loan	11,383	11,431
Lewisham Homes - Loan	8,000	0
Street Lighting PFI Sinking Fund	3,245	3,245
Lewisham Gateway Development - Loan	2,000	2,000
Land Charges Debts	388	389
Mortgages	184	175
Other Long Term Debtors	534	534
<b>Total Long Term Debtors</b>	<b>25,734</b>	<b>17,774</b>

a) Catford Regeneration Limited Loan A loan of £12m was advanced to CRPL in 2010/11. See note 24 a) ii) for more details.

b) Lewisham Homes Loan A loan of £8m was advanced to Lewisham Homes in 2015/16. See note 24 a) i) for more details.

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.

## 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.

	31/03/16 £000	31/03/15 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	4,670	6,869
Education Recoupment	0	2,083
Central Government bodies	12,173	1,684
Other Local Authorities	1,527	13,807
NHS bodies	1,562	7,123
Other Public bodies	731	4,521
Council Tax Payers	27,480	25,164
Council Tax Court Costs	6,752	6,096
Housing Benefit Overpayments	23,267	18,869
Housing Rents (inc PSL, B & B, Hostels, Commercial)	9,222	9,815
Leaseholders Services Charges	5,371	5,810
Parking	2,426	5,839
General Debtors due for Supplies and Services	27,030	35,410
<b>Total Current Debtors</b>	<b>122,211</b>	<b>143,090</b>
<b>Impairment Allowances</b>	<b>(63,858)</b>	<b>(61,100)</b>
<b>Total Net Current Debtors</b>	<b>58,353</b>	<b>81,990</b>

**c) Impairment Allowances**

	Balance at 31/03/15 £000	Movement in 2015/16 £000	Balance at 31/03/16 £000
Council Tax Payers	(23,530)	(1,876)	<b>(25,406)</b>
Council Tax Court Costs	(5,419)	(637)	<b>(6,056)</b>
Housing Benefit Overpayments	(13,849)	(2,635)	<b>(16,484)</b>
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(6,885)	2,161	<b>(4,724)</b>
Leaseholders Services Charges	(1,498)	(36)	<b>(1,534)</b>
Parking	(4,839)	3,245	<b>(1,594)</b>
General Debtors due for Supplies and Services	(5,080)	(2,980)	<b>(8,060)</b>
<b>Total Impairment Allowances</b>	<b>(61,100)</b>	<b>(2,758)</b>	<b>(63,858)</b>

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

## Notes to the Core Financial Statements

## 14. CASH AND CASH EQUIVALENTS

	Balance 31/03/15 £000	Movement in 2015/16 £000	Balance 31/03/16 £000
<b>Cash Equivalents</b>			
Short Term Deposits	10,007	7	10,014
<b>Cash</b>			
Money Market Funds	70,990	19,528	90,518
Call Accounts with Banks	0		0
	<b>70,990</b>	<b>19,528</b>	<b>90,518</b>
<b>Other Cash and Bank Balances</b>			
Main Bank Accounts	3,128	(3,128)	0
Other Cash and Bank Accounts	426	469	895
	<b>3,554</b>	<b>(2,659)</b>	<b>895</b>
<b>Total Cash and Cash Equivalents</b>	<b>84,551</b>	<b>16,876</b>	<b>101,427</b>
<b>Bank Accounts Overdrawn</b>			
Main Bank Accounts	0	(2,650)	(2,650)
Schools Bank Accounts	(1,555)	1,025	(530)
	<b>(1,555)</b>	<b>(1,625)</b>	<b>(3,180)</b>
<b>Net Cash and Cash Equivalents</b>	<b>82,996</b>	<b>15,251</b>	<b>98,247</b>

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 £13.8m (2014/15 £11.4m) and overdrawn £14.4m (2014/15 overdrawn £15m) respectively.

## Notes to the Core Financial Statements

**15. 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.

	31/03/16 £000	31/03/15 £000
Government and other public bodies:		
HM Revenue & Customs	5,393	5,691
Education Recoupment	440	1,100
Central Government bodies	9,955	3,847
Other Local Authorities	3,702	4,695
NHS bodies	12,907	13,635
Other Public bodies	955	1,038
	<b>33,352</b>	<b>30,006</b>
Short Term Compensated Absences	4,627	5,508
General Creditors (amounts owed for supplies and services)	39,703	56,172
<b>Total Creditors</b>	<b>77,682</b>	<b>91,686</b>

**16. 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 31/03/15 £000	2015/16 Transfers		Balance 31/03/16 £000
		Out £000	In £000	
<b>Current (less than 1 year)</b>				
Insurance Provision	2,372	(3,058)	3,434	2,748
Other Provisions	599	(192)	74	481
	<b>2,971</b>	<b>(3,250)</b>	<b>3,508</b>	<b>3,229</b>
<b>Non Current (Over 1 year)</b>				
Insurance Provision	6,437	0	137	6,574
Other Provisions	1,681	0	92	1,773
	<b>8,118</b>	<b>0</b>	<b>229</b>	<b>8,347</b>
<b>Total - Provisions</b>	<b>11,089</b>	<b>(3,250)</b>	<b>3,737</b>	<b>11,576</b>

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.

## Notes to the Core Financial Statements

**17. REVENUE RECEIPTS IN ADVANCE**

	31/03/16 £000	31/03/15 £000
Capital Contributions Unapplied	26,452	29,602
Council Tax	8,589	7,902
PFI Schemes	21,105	20,192
Revenue Grants and Contributions	2,614	6,311
Other Receipts in Advance	9,456	11,665
<b>Balance carried forward at end of year</b>	<b>68,216</b>	<b>75,672</b>

**18. 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.

	2015/16 £000	2014/15 £000
<b>Balance brought forward at start of year</b>	<b>48,191</b>	<b>19,446</b>
Amounts Received	24,426	34,787
Poolable to Central Government	(1,969)	(1,727)
Amounts applied to finance new capital investment	(11,659)	(4,315)
<b>Total increase/(decrease) in capital receipts in year</b>	<b>10,798</b>	<b>28,745</b>
<b>Balance carried forward at end of year</b>	<b>58,989</b>	<b>48,191</b>

**19. 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.

## Notes to the Core Financial Statements

	2015/16 £000	2014/15 £000
<b>Balance brought forward at start of year</b>	<b>(716,722)</b>	<b>(588,090)</b>
Actuarial gains or losses on pensions assets and liabilities	<b>148,032</b>	(98,275)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	<b>(66,478)</b>	(63,180)
Employer's pensions contributions and direct payments to pensioners payable in the year	<b>33,362</b>	32,823
<b>Balance carried forward at end of year</b>	<b>(601,806)</b>	<b>(716,722)</b>

**20. REVALUATION RESERVE**

The Revaluation Reserve records the accumulated gains since 1<sup>st</sup> 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.

	2015/16 £000	2014/15 £000
<b>Balance brought forward at start of year</b>	<b>558,836</b>	<b>390,257</b>
Revaluation of Assets	<b>192,019</b>	195,443
Impairment Losses	<b>(6,125)</b>	(15,137)
<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b>	<b>185,894</b>	<b>180,306</b>
Difference between fair value and historic cost depreciation	<b>(15,417)</b>	(7,221)
Accumulated gains on assets sold or scrapped	<b>(2,943)</b>	(4,506)
<b>Amount written off to the Capital Adjustment Account</b>	<b>(18,360)</b>	<b>(11,727)</b>
<b>Balance carried forward at end of year</b>	<b>726,370</b>	<b>558,836</b>

## Notes to the Core Financial Statements

**21. 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, and also contains accumulated gains and losses on Investment Properties.

	2015/16 £000	2014/15 £000
<b>Balance brought forward at start of year</b>	<b>861,199</b>	<b>1,019,904</b>
<u>Reversal of capital expenditure items debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	(43,463)	(232,097)
Revenue expenditure funded from capital under statute	(11,614)	(13,595)
Non-current assets written off on disposal - gain/loss to the CIES	(17,947)	(9,126)
	<b>(73,024)</b>	<b>(254,818)</b>
Adjusting amounts written out of the Revaluation Reserve	15,417	12,782
<b>Net amount written out of the cost of non-current assets consumed in the year</b>	<b>(57,607)</b>	<b>(242,036)</b>
<u>Capital Financing applied in the year:</u>		
Use of Capital Receipts to finance new capital expenditure	11,659	4,315
Use of Major Repairs Reserve to finance new capital expenditure	3,757	4,481
Capital grants and contributions credited to the CIES	37,567	50,926
Statutory Provision for the financing of capital investment	1,623	8,548
Repayment of Principal on PFI schemes	8,743	9,849
Capital expenditure charged to General Fund and HRA	8,203	7,791
	<b>71,552</b>	<b>85,910</b>
<b>Movements in the value of Investment Properties debited or credited to the CIES</b>	<b>0</b>	<b>(2,579)</b>
<b>Balance carried forward at end of year</b>	<b>875,144</b>	<b>861,199</b>

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**Notes to the Core Financial Statements**

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**22. SEGMENTAL REPORTING (AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS)**

## Notes to the Core Financial Statements

## SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2016

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(14,237)	(40,328)	(48,842)	(15,744)	(89,007)	<b>(208,158)</b>
Government grants	(313,474)	(28,738)	(234,270)	(3,159)	(10,358)	<b>(589,999)</b>
<b>Total Income</b>	<b>(327,711)</b>	<b>(69,066)</b>	<b>(283,112)</b>	<b>(18,903)</b>	<b>(99,365)</b>	<b>(798,157)</b>
Employee expenses	226,492	32,298	38,681	22,805	2,397	<b>322,673</b>
Other operating expenses	160,043	130,609	292,215	21,896	96,968	<b>701,731</b>
<b>Total operating expenses</b>	<b>386,535</b>	<b>162,907</b>	<b>330,896</b>	<b>44,701</b>	<b>99,365</b>	<b>1,024,404</b>
<b>Net Cost of Services</b>	<b>58,824</b>	<b>93,841</b>	<b>47,784</b>	<b>25,798</b>	<b>0</b>	<b>226,247</b>
<b>Net Budgets</b>	<b>51,389</b>	<b>95,006</b>	<b>43,896</b>	<b>29,646</b>	<b>0</b>	<b>219,937</b>
<b>Variation</b>	<b>7,435</b>	<b>(1,165)</b>	<b>3,888</b>	<b>(3,848)</b>	<b>0</b>	<b>6,310</b>
<b>Less: Corporate Items</b>						<b>(3,200)</b>
<b>General Fund Underspend reported to Members</b>						<b>3,110</b>

## Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000s
<b>Cost of Services in Service Analysis</b>	<b>226,247</b>
<b>Add services not included in main analysis</b>	<b>15,067</b>
<b>Add amounts not reported to management (Technical Accounting adjustments)</b>	<b>49,245</b>
<b>Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement</b>	<b>(36,025)</b>
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>254,534</b>

Reconciliation to Subjective Analysis (Single Entity)	Service	Services	Not	Not	Net	Corporate	Total
	Analysis	not in	reported	included	Cost of	Amounts	
	£000s	Analysis	to mgmt	in I&E	Services	£000s	£000s
Fees, charges & other service income	(208,158)	0	0	0	<b>(208,158)</b>	0	<b>(208,158)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	0	<b>0</b>
Interest and investment income	0	0	(26,145)	0	<b>(26,145)</b>	(2,003)	<b>(28,148)</b>
Income from council tax	0	0	0	0	<b>0</b>	(84,948)	<b>(84,948)</b>
Government grants and contributions	(589,999)	0	0	0	<b>(589,999)</b>	(201,878)	<b>(791,877)</b>
<b>Total Income</b>	<b>(798,157)</b>	<b>0</b>	<b>(26,145)</b>	<b>0</b>	<b>(824,302)</b>	<b>(288,829)</b>	<b>(1,113,131)</b>
Employee expenses	322,673	10,540	40,640	(36,025)	<b>337,828</b>	0	<b>337,828</b>
Other service expenses	701,731	4,527	21,767	0	<b>728,026</b>	0	<b>728,026</b>
Depreciation, amortisation, impairment & write-offs	0	0	12,681	0	<b>12,681</b>	919	<b>13,600</b>
Interest Payments	0	0	302	0	<b>302</b>	49,791	<b>50,093</b>
Precepts & Levies	0	0	0	0	<b>0</b>	1,631	<b>1,631</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	1,969	<b>1,969</b>
Gain or Loss on Disposal of non-current assets	0	0	0	0	<b>0</b>	(4,262)	<b>(4,262)</b>
<b>Total operating expenses</b>	<b>1,024,404</b>	<b>15,067</b>	<b>75,390</b>	<b>(36,025)</b>	<b>1,078,836</b>	<b>50,048</b>	<b>1,128,884</b>
<b>Surplus or deficit on provision of services</b>	<b>226,247</b>	<b>15,067</b>	<b>49,245</b>	<b>(36,025)</b>	<b>254,534</b>	<b>(238,781)</b>	<b>15,753</b>

## Notes to the Core Financial Statements

## SEGMENTAL REPORTING FOR THE YEAR ENDING 31ST MARCH 2015

	CYP £000s	Community Services £000s	Customer Services £000s	Resources and Regeneration £000s	HRA £000s	Total £000s
Fees, charges & other service income	(14,477)	(31,933)	(46,569)	(14,002)	(88,622)	<b>(195,603)</b>
Government grants	(306,005)	(25,334)	(238,930)	(1,019)	(46,353)	<b>(617,641)</b>
<b>Total Income</b>	<b>(320,482)</b>	<b>(57,267)</b>	<b>(285,499)</b>	<b>(15,021)</b>	<b>(134,975)</b>	<b>(813,244)</b>
Employee expenses	221,848	34,902	37,827	24,250	2,409	<b>321,236</b>
Other operating expenses	162,526	130,209	293,104	20,940	132,566	<b>739,345</b>
<b>Total operating expenses</b>	<b>384,374</b>	<b>165,111</b>	<b>330,931</b>	<b>45,190</b>	<b>134,975</b>	<b>1,060,581</b>
<b>Net Cost of Services</b>	<b>63,892</b>	<b>107,844</b>	<b>45,432</b>	<b>30,169</b>	<b>0</b>	<b>247,337</b>
<b>Net Budgets</b>	<b>53,947</b>	<b>110,069</b>	<b>41,873</b>	<b>32,305</b>	<b>0</b>	<b>238,194</b>
<b>Variation</b>	<b>9,945</b>	<b>(2,225)</b>	<b>3,559</b>	<b>(2,136)</b>	<b>0</b>	<b>9,143</b>
<b>Less: Corporate Items</b>						<b>(3,900)</b>
<b>General Fund Underspend reported to Members</b>						<b>5,243</b>
<b>Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement</b>						<b>£000s</b>
<b>Cost of Services in Service Analysis</b>						<b>247,337</b>
<b>Add services not included in main analysis</b>						<b>5,446</b>
<b>Add amounts not reported to management (Technical Accounting adjustments)</b>						<b>220,201</b>
<b>Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement</b>						<b>(35,078)</b>
<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>						<b>437,906</b>

Reconciliation to Subjective Analysis (Single Entity)	Service Analysis	Services not in Analysis	Not reported to mgmt	Not included in I&E	Net Cost of Services	Corporate Amounts	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Fees, charges & other service income	(195,603)	(4,769)	0	0	<b>(200,372)</b>	0	<b>(200,372)</b>
Surplus or deficit on associates and joint ventures	0	0	0	0	<b>0</b>	0	<b>0</b>
Interest and investment income	0	0	(26,327)	0	<b>(26,327)</b>	(1,345)	<b>(27,672)</b>
Income from council tax	0	0	0	0	<b>0</b>	(80,738)	<b>(80,738)</b>
Government grants and contributions	(617,641)	0	(35,971)	0	<b>(653,612)</b>	(253,542)	<b>(907,154)</b>
<b>Total Income</b>	<b>(813,244)</b>	<b>(4,769)</b>	<b>(62,298)</b>	<b>0</b>	<b>(880,311)</b>	<b>(335,625)</b>	<b>(1,215,936)</b>
Employee expenses	321,236	10,216	33,369	(35,078)	<b>329,743</b>	0	<b>329,743</b>
Other service expenses	739,345	0	16,732	0	<b>756,077</b>	0	<b>756,077</b>
Depreciation, amortisation, impairment & write-offs	0	0	232,097	0	<b>232,097</b>	2,579	<b>234,676</b>
Interest Payments	0	0	301	0	<b>301</b>	53,263	<b>53,564</b>
Precepts & Levies	0	0	0	0	<b>0</b>	1,646	<b>1,646</b>
Payments to Housing Capital Receipts Pool	0	0	0	0	<b>0</b>	1,727	<b>1,727</b>
Gain or Loss on Disposal of non-current assets	0	0	0	0	<b>0</b>	(14,203)	<b>(14,203)</b>
<b>Total operating expenses</b>	<b>1,060,581</b>	<b>10,216</b>	<b>282,499</b>	<b>(35,078)</b>	<b>1,318,218</b>	<b>45,012</b>	<b>1,363,230</b>
<b>Surplus or deficit on provision of services</b>	<b>247,337</b>	<b>5,446</b>	<b>220,201</b>	<b>(35,078)</b>	<b>437,906</b>	<b>(290,613)</b>	<b>147,293</b>

## Notes to the Core Financial Statements

**23. 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 2015/16 (nor 2014/15).

In 2015/16 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**

	2015/16 £000	2014/15 £000
Funding provided to the pooled budget:		
Lewisham Borough Council	(2,102)	0
NHS Lewisham CCG	(19,740)	0
	(21,842)	0
Expenditure met from the pooled budget:		
Lewisham Borough Council	13,629	0
NHS Lewisham CCG	8,213	0
	21,842	0
<b>Net surplus arising in year</b>	<b>0</b>	<b>0</b>
<b>LBL share being 9.6% of the net surplus in year</b>	<b>0</b>	<b>0</b>

Note: The above pooled budget was new in 2015/16; hence nil values for 2014/15 comparatives.

**24. INVESTMENT IN COMPANIES****a) Companies of which the Council is the sole owner.**i) Lewisham Homes Limited

Lewisham Homes is an arms-length management organisation (ALMO) which is responsible for managing and providing housing related services such as lettings and repairs and maintenance for Council dwellings. The company is a wholly owned subsidiary of the Council and is limited by guarantee. Councillors Bell, Paschoud and Wise sat on the board during 2015/16. The majority of Lewisham Homes' income is a management fee paid by the Council to the company. In 2015/16, this was £18.8m (£18.6m in 2014/15).

An agreement has been reached to loan Lewisham Homes an initial £10m for affordable homes of which £8m was advanced in 2015/16.

Lewisham Homes Limited's Audited Accounts can be obtained from Lewisham Homes Limited, Old Town Hall, Catford Road, London, SE6 4RU. Its auditors are KPMG LLP, 2 Cornwall Street, Birmingham, B3 2DL, United Kingdom.

ii) Catford Regeneration Partnership Limited

Catford Regeneration Partnership Ltd (CRPL) is a wholly owned subsidiary of the Council, and the Head of Financial Services and the Head of Public Services are its board members and directors. CRPL purchased the Catford Shopping Centre in February 2010, which is included on its balance sheet as an investment property at £13.9m, and receives approximately £1m per annum in rent from its tenants. The Council made a loan of £12m to CRPL in February 2010 and a further loan of £250k in May 2015. During 2015/16 CRPL

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**Notes to the Core Financial Statements**


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repaid principal of £207k and interest of £518k to the Council (in 2014/15 these repayments were £109k and £630k respectively).

Catford Regeneration Partnership Limited's Accounts for 2014/15 received an unqualified audit opinion, and their Audited Accounts can be obtained from Catford Regeneration Partnership Limited, 5th Floor, Laurence House, Catford, London, SE6 4RU. Its auditors are ACF Auditing Services Limited, Plaza Building, Lee High Road, London, SE13 5PT.

**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 minority 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. These are Lewisham SPV Ltd, Lewisham SPV2 Ltd, Lewisham SPV3 Ltd and Lewisham SPV4 Ltd, and their related Holding Companies.

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 small 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 £5.6m were made in 2015/16 to the company (£5.3m in 2014/15).

iii) Greater London Enterprise Ltd

The Council has a small minority share in Greater London Enterprise Ltd which is a company limited by guarantee and provides property management & consultancy services.

**25. MEMBERS' ALLOWANCES**

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

	2015/16 £000	2014/15 £000
Allowances (incl. NI)	936	951
Other Expenses	66	46
<b>Total Expenditure in Year</b>	<b>1,002</b>	<b>997</b>

## Notes to the Core Financial Statements

## 26. OFFICERS' REMUNERATION

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

Remuneration Band	Non-Schools			Schools		Totals	
	Scale	2015/16	2014/15	2015/16	2014/15	2015/16	2014/15
£50,000 to £54,999	SMG1	49	52	200	167	249	219
£55,000 to £59,999	SMG2	32	20	90	69	122	89
£60,000 to £64,999	SMG3	24	13	39	50	63	63
£65,000 to £69,999	SMG3	9	13	36	39	45	52
£70,000 to £74,999	CO Band 4	8	4	22	19	30	23
£75,000 to £79,999	CO Band 4	6	1	15	12	21	13
£80,000 to £84,999	CO Band 4	2	1	12	11	14	12
£85,000 to £89,999	CO Band 3	0	0	7	10	7	10
£90,000 to £94,999	CO Band 3	1	4	3	4	4	8
£95,000 to £99,999	CO Band 3	9	9	3	3	12	12
£100,000 to £104,999	CO Band 2	0	0	1	4	1	4
£105,000 to £109,999	CO Band 2	1	3	3	4	4	7
£110,000 to £114,999	CO Band 2	0	1	3	0	3	1
£115,000 to £119,999	CO Band 2	2	1	1	0	3	1
£120,000 to £124,999	CO Band 2	0	0	0	0	0	0
£125,000 to £129,999	CO Band 2	0	0	1	0	1	0
£130,000 to £134,999	CO Band 1	0	0	0	1	0	1
£135,000 to £139,999	CO Band 1	1	1	0	0	1	1
£140,000 to £144,999	CO Band 1	2	3	0	0	2	3
£165,000 to £169,999	CO Band 1	0	0	1	0	1	0
<b>Total</b>		<b>146</b>	<b>126</b>	<b>437</b>	<b>393</b>	<b>583</b>	<b>519</b>

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.

<b>Financial Year 2015/16</b>	<b>Salary (inc fees and allowances)</b>	<b>Employer's Pension Contributions</b>	<b>Total (inc. Pension Contributions)</b>
	£	£	£
<b>Senior Employees - Salary below £150,000</b>			
Executive Director for Children and Young People	135,867	29,891	165,758
Executive Director for Resources and Regeneration	141,123	31,047	172,170
Executive Director for Community Services	141,123	31,047	172,170
Executive Director for Customer Services	138,495	30,469	168,964
Chief Executive (Part time)	115,432	0	115,432
Director of Children's Social Care and Health	114,828	25,262	140,090
Director of Regeneration and Asset Management	107,538	23,658	131,196
Director of Public Health	118,567	16,599	135,166
Head of Law and Monitoring Officer (Part time)	64,523	14,195	78,718
<b>Totals</b>	<b>1,077,496</b>	<b>202,168</b>	<b>1,279,664</b>

<b>Financial Year 2014/15</b>	<b>Salary (inc fees and allowances)</b>	<b>Employer's Pension Contributions</b>	<b>Total (inc. Pension Contributions)</b>
	£	£	£
<b>Senior Employees - Salary below £150,000</b>			
Executive Director for Children and Young People	141,123	30,341	171,464
Executive Director for Resources and Regeneration	141,123	30,341	171,464
Executive Director for Community Services	141,123	30,341	171,464
Executive Director for Customer Services	135,867	29,211	165,078
Chief Executive (Part time)	115,432	0	115,432
Director of Children's Social Care and Health	111,386	23,948	135,334
Director of Regeneration and Asset Management	107,538	23,121	130,659
Director of Public Health	107,057	14,988	122,045
Head of Law and Monitoring Officer (Part time)	64,523	13,872	78,395
<b>Totals</b>	<b>1,065,172</b>	<b>196,163</b>	<b>1,261,335</b>

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made to any of these employees in 2015/16 (or 2014/15).

## 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	
	2015/16 No.	2014/15 No.	2015/16 £000	2014/15 £000
£0 to £20,000	95	140	1,060	1,253
£20,001 to £40,000	60	103	1,737	2,881
£40,001 to £60,000	32	10	1,508	477
£60,001 to £80,000	11	12	768	842
£80,001 to £100,000	9	1	772	83
£100,001 to £120,000	1	2	112	223
£140,001 to £160,000	1	0	150	0
£220,001 to £240,000	1	0	232	0
<b>Total</b>	<b>210</b>	<b>268</b>	<b>6,339</b>	<b>5,759</b>

**27. EXTERNAL AUDIT COSTS**

	2015/16 £000	2014/15 £000
External Audit Services	193	255
Certification of Grant Claims and Returns	40	40
Other services provided by the appointed auditor	24	9
	<b>257</b>	<b>304</b>

These fees exclude the amount payable of £21,000 for the Audit of the Pension Fund for 2015/16 (£21,000 for 2014/15).

The Council's External Auditors are Grant Thornton.

## Notes to the Core Financial Statements

**28. 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.

	2015/16			2014/15		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
<b>Final DSG before academy recoupment</b>	<b>51,621</b>	<b>227,821</b>	<b>279,442</b>	<b>43,054</b>	<b>226,563</b>	<b>269,617</b>
Academy figure recouped	(964)	(26,466)	(27,430)	(1,149)	(18,901)	(20,050)
<b>Total DSG after academy recoupment</b>	<b>50,657</b>	<b>201,355</b>	<b>252,012</b>	<b>41,905</b>	<b>207,662</b>	<b>249,567</b>
Brought forward from previous year	0	0	0	0	0	0
Carry forward to next year agreed in advance	0	0	0	0	0	0
<b>Agreed initial budgeted distribution</b>	<b>47,979</b>	<b>227,821</b>	<b>275,800</b>	<b>41,137</b>	<b>226,563</b>	<b>267,700</b>
In year adjustments	3,790	(148)	3,642	2,044	(127)	1,917
<b>Final Budget Distribution</b>	<b>51,769</b>	<b>227,673</b>	<b>279,442</b>	<b>43,181</b>	<b>226,436</b>	<b>269,617</b>
<b>Actual Central Expenditure</b>	<b>51,769</b>		<b>51,769</b>	<b>43,181</b>		<b>43,181</b>
<b>Actual ISB deployed to schools</b>		<b>227,673</b>	<b>227,673</b>		<b>226,436</b>	<b>226,436</b>

**29. GRANT INCOME**

The following grants were credited to services during the year.

	2015/16 £000	2014/15 £000
Dedicated Schools Grant	(254,026)	(249,579)
Housing Benefit Grant	(232,688)	(233,688)
Housing Subsidy/ Decent Homes Backlog Grant	(10,353)	(46,353)
BSF/ Grouped Schools PFI Unitary Charge Grant	(25,585)	(25,585)
Public Health Grant	(20,400)	(20,088)
Pupil Premium Grant	(16,406)	(16,380)
New Homes Bonus Grant	(8,120)	(7,314)
Other Grants	(35,869)	(33,257)
<b>Total</b>	<b>(603,447)</b>	<b>(632,244)</b>

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**Notes to the Core Financial Statements**


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**30. 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 29 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 24 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 25. 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.

(d) Lewisham Pension Fund

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

**31. 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.

	2015/16 £000	2014/15 £000
<b>Opening Capital Financing Requirement</b>	<b>230,786</b>	<b>235,850</b>
<b>Capital Investment</b>		
Property, Plant and Equipment	60,679	57,402
Revenue Expenditure Funded from Capital under Statute	11,614	7,984
	<b>72,293</b>	<b>65,386</b>
<b>Resources Used for Financing</b>		
Capital Receipts	(11,659)	(4,315)
Government Grants and Other Contributions	(36,217)	(50,925)
Sums set aside from Revenue:	(11,855)	(6,662)
	<b>(59,731)</b>	<b>(61,902)</b>
<b>Increase in the underlying need to borrowing</b>	<b>12,562</b>	<b>3,484</b>
<b>Debt Redeemed - Minimum Revenue Provision</b>	<b>(1,623)</b>	<b>(8,548)</b>
<b>Increase/ (decrease) in Capital Financing Requirement</b>	<b>10,939</b>	<b>(5,064)</b>
<b>Closing Capital Financing Requirement</b>	<b>241,725</b>	<b>230,786</b>

## Notes to the Core Financial Statements

**32. LEASES****a) Council as a Lessee**

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 (£2.3m in 2014/15). The future minimum lease payments due under non-cancellable leases in futures are:

	<b>31/03/16</b>	<b>31/03/15</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	1,261	1,276
Later than one year and not later than five years	3,428	3,511
Later than five years	19,130	17,799
	<b>23,819</b>	<b>22,586</b>

The Council does not have any assets held under finance leases.

**b) Council as a Lessor**i) Finance Leases

The Council leases out a number of commercial properties and has a gross investment in the leases, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee and finance income that will be earned by the Council in future years whilst the debtor remains outstanding. The gross income (Finance Lease Debtor) was £66K in 2015/16 (£71K in 2014/15). The gross investment and the minimum lease income will be received over the following periods:

	<b>Gross Investment in the Lease</b>		<b>Minimum Lease Income</b>	
	<b>31/03/16</b>	<b>31/03/15</b>	<b>31/03/16</b>	<b>31/03/15</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Not later than one year	30	30	30	30
Later than one year and not later than five years	120	120	120	120
Later than five years	116	146	116	146
	<b>266</b>	<b>296</b>	<b>266</b>	<b>296</b>

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:

	<b>31/03/16</b>	<b>31/03/15</b>
	<b>£000</b>	<b>£000</b>
Not later than one year	1,969	1,973
Later than one year and not later than five years	6,120	5,979
Later than five years	4,059	4,966
	<b>12,148</b>	<b>12,918</b>

## Notes to the Core Financial Statements

## 33. 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
<b>Total Estimated Cost</b>	<b>£286m</b>	<b>£77m</b>	<b>£227m</b>	<b>£240m</b>	<b>£86m</b>	<b>£118m</b>	<b>£223m</b>	<b>£95m</b>
Total PFI Credits	£207m	£30m		£674m				£54m
<b>Net PFI Cost</b>	<b>£79m</b>	<b>£47m</b>		<b>£220m</b>				<b>£41m</b>

## 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
<b>2015/16</b>									
Service Charges	6,099	428	3,045	2,603	840	811	1,374	1,222	16,421
Interest	5,112	1,616	3,480	4,487	1,837	2,737	5,375	1,278	25,923
Liability Repayment	3,409	270	728	1,444	258	635	1,065	933	8,743
<b>Unitary Charge</b>	<b>14,620</b>	<b>2,314</b>	<b>7,253</b>	<b>8,534</b>	<b>2,935</b>	<b>4,184</b>	<b>7,815</b>	<b>3,433</b>	<b>51,087</b>
<b>2014/15</b>									
Service Charges	5,928	425	2,771	2,657	730	808	1,390	1,197	15,906
Interest	5,406	1,635	3,596	4,586	1,879	2,787	5,474	926	26,289
Liability Repayment	3,094	238	797	1,262	309	581	969	987	8,237
<b>Unitary Charge</b>	<b>14,428</b>	<b>2,298</b>	<b>7,164</b>	<b>8,505</b>	<b>2,918</b>	<b>4,176</b>	<b>7,833</b>	<b>3,110</b>	<b>50,432</b>

## 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

	2015/16		2014/15	
	£000	£000	£000	£000
<b>Gross Book Value b/fwd</b>		251,476		270,316
<b>Additions</b>		8,757		4,623
Revaluations (recognised in Revaluation Reserve)	18,182		4,502	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,094	20,276	(27,403)	(22,901)
Impairments (recognised in Revaluation Reserve)	0		(1)	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	(5)	(6)
<b>Disposals</b>		(460)		(556)
<b>Transfers</b>		0		0
<b>Assets reclassified (to)/ from Held for Sale</b>		0		0
<b>Gross Book Value c/fwd</b>		280,049		251,476
<b>Depreciation b/fwd</b>		(3,488)		(4,123)
Depreciation for year		(6,235)		(5,750)
<u>Depreciation written back on:</u>				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	3,037		2,916	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	1,129	4,165	3,468	6,384
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0
Assets sold		2		1
<b>Depreciation c/fwd</b>		(5,556)		(3,488)
<b>Net Book Value at End of Year</b>		<b>274,493</b>		<b>247,988</b>

## 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. The liabilities included on the Balance Sheet for Street Lighting represents the completions to date on the updating work, and not the full expected cost. The full cost is shown in note e).

	Current Liabilities (Due within 1 Year)		Deferred (Future) Liabilities	
	2015/16 £000	2014/15 £000	2015/16 £000	2014/15 £000
<b>Balance outstanding at start of year</b>	8,751	8,281	239,002	244,703
<b>Balance outstanding at end of year</b>	7,706	8,751	240,061	239,002

## 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

## Notes to the Core Financial Statements

assuming a 3.1% 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.

Payments due	Brockley HRA £000	Downham Lifestyles £000	Grouped Schools £000	BSF 1 £000	BSF 2 £000	BSF 3 £000	BSF 4 £000	Street lighting £000	Total £000
<b>In 2016/17</b>									
Service charges	7,460	222	2,556	2,417	739	854	1,449	897	16,595
Interest	4,575	1,615	3,397	4,349	1,828	2,700	5,320	2,235	26,019
Repayment of liability	2,460	306	735	1,470	361	671	1,171	532	7,706
Planned lifecycle replacement	399	219	670	424	36	14	0	0	1,761
	<b>14,893</b>	<b>2,362</b>	<b>7,358</b>	<b>8,660</b>	<b>2,964</b>	<b>4,239</b>	<b>7,940</b>	<b>3,665</b>	<b>52,081</b>
<b>within 2 to 5 years</b>									
Service charges	32,856	944	10,968	10,420	3,111	3,827	7,041	3,233	72,402
Interest	15,713	6,240	12,733	15,734	6,910	10,317	20,319	9,353	97,319
Repayment of liability	11,640	503	3,151	5,368	1,496	2,938	4,285	2,452	31,832
Planned lifecycle replacement	1,928	989	3,554	4,157	613	339	928	0	12,509
	<b>62,136</b>	<b>8,676</b>	<b>30,406</b>	<b>35,679</b>	<b>12,131</b>	<b>17,422</b>	<b>32,574</b>	<b>15,038</b>	<b>214,061</b>
<b>within 6 to 10 years</b>									
Service charges	48,029	1,319	15,553	14,873	4,338	5,880	10,236	4,518	104,746
Interest	12,353	8,006	13,912	16,277	7,626	11,426	23,123	10,593	103,315
Repayment of liability	20,450	1,102	5,396	9,171	2,389	4,654	7,770	4,461	55,393
Planned lifecycle replacement	3,104	1,392	5,634	6,819	1,485	959	1,573	0	20,967
	<b>83,936</b>	<b>11,819</b>	<b>40,495</b>	<b>47,140</b>	<b>15,838</b>	<b>22,920</b>	<b>42,702</b>	<b>19,571</b>	<b>284,421</b>
<b>within 11 to 15 years</b>									
Service charges	10,761	1,493	17,894	17,250	4,908	7,494	12,680	5,111	77,591
Interest	1,475	7,819	10,978	11,593	6,133	9,002	18,838	8,622	74,460
Repayment of liability	6,334	1,862	9,816	14,892	3,939	6,030	10,985	6,735	60,591
Planned lifecycle replacement	601	1,591	4,400	6,573	1,700	1,819	2,675	0	19,361
	<b>19,170</b>	<b>12,765</b>	<b>43,088</b>	<b>50,308</b>	<b>16,680</b>	<b>24,345</b>	<b>45,179</b>	<b>20,468</b>	<b>232,003</b>
<b>within 16 to 20 years</b>									
Service charges		1,689	20,576	15,766	5,553	9,151	15,490	5,775	74,000
Interest		7,098	5,854	3,283	3,637	5,699	12,373	5,438	43,382
Repayment of liability		3,097	16,244	16,297	6,545	8,502	16,188	10,193	77,066
Planned lifecycle replacement		1,804	3,897	4,734	1,897	2,604	3,929	0	18,865
	<b>0</b>	<b>13,688</b>	<b>46,571</b>	<b>40,080</b>	<b>17,632</b>	<b>25,957</b>	<b>47,980</b>	<b>21,406</b>	<b>213,313</b>
<b>within 21 to 25 years</b>									
Service charges		1,118	557		1,706	2,848	7,168	452	13,849
Interest		3,564	30		335	966	2,309	200	7,403
Repayment of liability		3,034	475		2,504	3,519	8,528	833	18,893
Planned lifecycle replacement		1,194	137		660	810	2,053	0	4,853
	<b>0</b>	<b>8,910</b>	<b>1,199</b>	<b>0</b>	<b>5,205</b>	<b>8,142</b>	<b>20,057</b>	<b>1,485</b>	<b>44,998</b>
<b>within 26 to 30 years</b>									
Service charges									0
Interest									0
Repayment of liability									0
Planned lifecycle replacement									0
	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Payments Due</b>	<b>180,135</b>	<b>58,220</b>	<b>169,116</b>	<b>181,868</b>	<b>70,448</b>	<b>103,024</b>	<b>196,432</b>	<b>81,633</b>	<b>1,040,877</b>

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**Notes to the Core Financial Statements**


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**34. LONG TERM CONTRACTS**

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

<b>Contract Name</b>	<b>Contractor</b>	<b>Start/ End Date</b>	<b>Total Contract Value</b>
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
Corporate Cleaning Contract	ISS Facility Services	Jul-10/ Jul-17	£9.1m
Highway Maintenance Contract	FM Conway	Apr-14/ Mar-19	£7.5m
Premises Maintenance (Planned and Statutory Maintenance)	Interserve Facilities Services	Jul-11/ Jul-16	£6.4m
Corporate Security Contract	CIS Security Services	Mar-11/ Mar-16	£4.5m
Data Centre Provision	Logicalis	Apr-11/ Mar-21	£4.0m
Provision of CCTV control room management and operational services	OCS Group UK Ltd	Apr-12/ Apr-17	£1.4m

**35. 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 2015/16 this rate was 14.1% up to 31/08/15 and 16.48% from 01/09/15 to 31/03/16 (14.1% for the whole of 2014/15). In 2015/16, the Council paid £13.9m to the DfE in respect of teachers' pension costs (£12.6m in 2014/15).

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 14.0% for 2015/16 (same for 2014/15). In 2015/16 the Council paid £0.115m to the DoH in respect of employees' pension costs (£0.148m in 2014/15).

**36. 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.

**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

41,742

33,586

Past Service Cost (inc.settlements and curtailments)

1,561

957

43,303

34,543

**Financing and Investment Income and Expenditure**Net Interest on the Net Defined Benefit Liability

Interest Income on Scheme Assets

(31,318)

(36,002)

Interest Cost on Defined Benefit Obligation (Liabilities)

54,493

23,175

28,637

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

66,478

63,180

Remeasurements of the Net Defined Benefit Liability

Return on Assets excluding amounts included in Net Interest

33,019

(97,268)

Actuarial Losses from changes in Demographic Assumptions

0

0

Actuarial Losses from changes in Financial Assumptions

(154,346)

217,512

Other Gains and Losses

(26,705)

(21,969)

**Total Remeasurements recognised in CIES**

(148,032)

98,275

**Total Post Employment Benefits Charged to the CIES**

(81,554)

161,455

**Movement in Reserves Statement**

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

(66,478)

(63,180)

Employers' Contributions Payable to the Scheme

33,362

32,823

Return on Assets excluding amounts included in Net Interest

(33,019)

97,268

Actuarial Gains and Losses

181,051

(195,543)

Pensions Reserve adj to opening bal (re Lewisham Homes)

0

0

**Net Movement in Pensions Reserve**

114,916

(128,632)

## Notes to the Core Financial Statements

## d) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/16 £000	31/03/15 £000
Fair Value of Plan Assets	1,045,251	1,053,518
Present Value of Defined Benefit Liability (Obligation)	(1,575,146)	(1,688,924)
	<b>(529,895)</b>	<b>(635,406)</b>
Present Value of Unfunded Liabilities	(71,911)	(81,316)
<b>Pensions Reserve - Year End Balance</b>	<b>(601,806)</b>	<b>(716,722)</b>

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

	31/03/16 £000	31/03/15 £000
<b>Opening Fair Value of Scheme Assets</b>	<b>1,053,518</b>	<b>923,298</b>
Interest Income on Scheme Assets	33,435	36,002
Administration	(108)	(106)
<u>Remeasurement Gains / Losses</u>		
Return on Assets excluding amounts included in Net Interest	(33,019)	97,268
Employer Contributions	28,347	27,668
Contributions in respect of Unfunded Benefits	5,015	5,155
Contributions from Scheme Participants	8,494	8,479
Benefits Paid	(45,416)	(47,291)
Unfunded Benefits Paid	(5,015)	(5,155)
Other Gains and Losses	0	8,200
<b>Closing Fair Value of Scheme Assets</b>	<b>1,045,251</b>	<b>1,053,518</b>

## Notes to the Core Financial Statements

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

	31/03/16 £000	31/03/15 £000
<b>Opening Present Value of Scheme Liabilities (Obligations)</b>	<b>(1,770,240)</b>	<b>(1,511,388)</b>
Current Service Cost	(41,742)	(33,586)
Interest Cost on Defined Benefit Obligation (Liabilities)	(56,502)	(64,533)
Contributions from Scheme Participants	(8,494)	(8,479)
<u>Remeasurement Gains / Losses</u>		
Benefits Paid	45,416	47,291
Unfunded Benefits Paid	5,015	5,155
Actuarial Losses from changes in Demographic Assumptions	0	0
Actuarial Losses from changes in Financial Assumptions	154,346	(217,512)
Other Gains and Losses	26,705	13,769
Past Service Costs / Curtailments / Settlements	(1,561)	(957)
<b>Closing Present Value of Scheme Liabilities (Obligations)</b>	<b>(1,647,057)</b>	<b>(1,770,240)</b>

## g) Pension Scheme Assets

	31/03/16			31/03/15		
	Active Market £000	Not in Active Markets £000	Total £000	Active Market £000	Not in Active Markets £000	Total £000
<b>LGPS (LBL and LH)</b>						
Equities	63,273	29,545	92,818	74,194		74,194
Debt Securities	90,328	0	90,328	94,621		94,621
Real Estate	8,499	83,292	91,791		79,649	79,649
Investment Funds / Unit Trusts	654,323	7,105	661,427	652,103	60,534	712,637
Derivatives	0	0	0		(52)	(52)
Cash and Cash Equivalents	4,722	35,506	40,228		20,655	20,655
<b>Total LGPS Assets</b>	<b>821,145</b>	<b>155,448</b>	<b>976,592</b>	<b>820,918</b>	<b>160,786</b>	<b>981,704</b>
<b>LPFA</b>						
Equities	28,755	3,140	31,895	17,446	13,712	31,158
LDI Cashflow matching	0	6,960	6,960		5,390	5,390
Target Return Portfolio	3,556	11,049	14,605	15,319	5,441	20,760
Infrastructure	209	3,552	3,761		3,558	3,558
Commodities	0	307	307	223	445	668
Properties	0	2,450	2,450		2,035	2,035
Cash	8,681	0	8,681		8,245	8,245
<b>Total LPFA Assets</b>	<b>41,201</b>	<b>27,458</b>	<b>68,659</b>	<b>32,988</b>	<b>38,826</b>	<b>71,814</b>

## Notes to the Core Financial Statements

## h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2015/16	2014/15	2015/16	2014/15
Rate of Inflation – CPI	2.20%	2.40%	2.00%	2.20%
Salary Increase Rate *	4.20%	4.30%	3.80%	4.00%
Pensions Increases	2.20%	2.40%	2.00%	2.20%
Rate for discounting scheme liabilities	3.50%	3.20%	3.30%	3.00%
<b>Mortality assumptions</b>				
Longevity at 65 for current pensioners - Men	21.7yrs	21.7yrs	21.6yrs	21.5yrs
Longevity at 65 for current pensioners - Women	24.0yrs	24.0yrs	24.4yrs	24.3yrs
Longevity at 65 for future pensioners - Men	24.4yrs	24.4yrs	24.0yrs	23.9yrs
Longevity at 65 for future pensioners - Women	26.7yrs	26.7yrs	26.7yrs	26.6yrs

Note – Salary increases in the LGPS forecast are assumed to be 1% p.a. until 31 March 2018 reverting to the long term assumption shown thereafter.

## i) Sensitivity Analysis

Change in Assumption at 31st March 2016	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
<b>LGPS - LB Lewisham</b>		
0.5% Decrease in Real Discount Rate	10%	143,028
1 Year Increase in Member Life Expectancy	3%	43,845
0.5% Increase in the Salary Increase Rate	2%	33,389
0.5% Increase in the Pension Increase Rate	7%	108,047
<b>LGPS - Lewisham Homes</b>		
0.5% Decrease in Real Discount Rate	12%	13,230
1 Year Increase in Member Life Expectancy	3%	3,255
0.5% Increase in the Salary Increase Rate	4%	4,170
0.5% Increase in the Pension Increase Rate	8%	8,823
<b>LPFA</b>		
0.5% Decrease in Real Discount Rate	n/a	1,350
1 Year Increase in Member Life Expectancy	n/a	272
0.5% Increase in the Salary Increase Rate	n/a	1,325
0.5% Increase in the Pension Increase Rate	n/a	1,345

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 employers' 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 2016. The Council anticipates paying £25.4m in contributions to the scheme in 2016/17.

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.

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**Notes to the Core Financial Statements**

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**37. 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 has the following contingent liability.

As at 31st March 2016, the Council was advised by the Valuation Office Agency (VOA) that Virgin Media had put forward a proposal to merge the Virgin Media network that appears in councils' rating lists countrywide into a single national assessment appearing with effect from 1st April 2010. There is no indication whether the proposal will be accepted or rejected yet. Given this uncertainty, it is disclosed as a contingent liability and will be reviewed in January 2017 as part of the 2017/18 NDR data assessment when the outcome may be clearer. The estimated effect of this proposal on the Collection Fund is approximately £10m.

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.

**38. 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.

**39. 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 31<sup>st</sup> March 2016 was £0.65m (£0.65m as at 31<sup>st</sup> March 2015)

**40. 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 31<sup>st</sup> March 2016 is £0.26m (£0.26m as at 31<sup>st</sup> March 2015).

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

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

	2015/16 £000	2014/15 £000
Depreciation, Impairment and Downward Valuations	43,463	232,097
Increase/ (decrease) in creditors	(14,251)	5,899
(Increase)/ decrease in debtors	30,565	(26,221)
(Increase)/ decrease in inventories (stock)	122	(139)
Movement in pension liability	33,116	30,357
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	20,890	9,126
Other non-cash items charged to the net surplus or deficit on the provision of services	28,510	5,892
<b>Total Adjustment to net surplus or deficit on the provision of services for non-cash movements</b>	<b>142,415</b>	<b>257,011</b>

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

	2015/16 £000	2014/15 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	55	398
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(24,413)	(34,768)
Any other items for which the cash effects are investing or financing cash flows.	(34,758)	(50,107)
<b>Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities</b>	<b>(59,116)</b>	<b>(84,477)</b>

**43. CASH FLOW STATEMENT - OPERATING ACTIVITIES**

	2015/16 £000	2014/15 £000
Interest Received	1,786	1,156
Interest Paid	(26,570)	(24,872)
<b>Net Interest Paid</b>	<b>(24,784)</b>	<b>(23,716)</b>

## Notes to the Core Financial Statements

**44. CASH FLOW STATEMENT - INVESTING ACTIVITIES**

	<b>2015/16</b> <b>£000</b>	<b>2014/15</b> <b>£000</b>
Purchase of Property, Plant and Equipment, investment property and intangible assets	(92,875)	(62,705)
Purchase of short and long term investments	(350,200)	(395,000)
Other payments for Investing Activities	(8,000)	0
Proceeds from the sale of property plant and equipment, investment property and intangible assets	24,426	34,787
Proceeds from short-term and long-term investments	350,000	330,000
Other Receipts from Investing Activities	26,993	50,566
<b>Net Cash Flows from Investing Activities</b>	<b>(49,656)</b>	<b>(42,352)</b>

**45. CASH FLOW STATEMENT - FINANCING ACTIVITIES**

	<b>2015/16</b> <b>£000</b>	<b>2014/15</b> <b>£000</b>
Cash receipts of short and long term borrowing	879	0
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	(8,743)	(8,237)
Repayment of Short-Term and Long-Term Borrowing	0	(5,314)
Other payments for financing activities	5,225	(2,770)
<b>Net Cash Flows from Financing Activities</b>	<b>(2,639)</b>	<b>(16,321)</b>

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**Housing Revenue Account**


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**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**

	2015/16 £000	2014/15 £000
<b>INCOME</b>		
Gross Rent - Dwellings	(72,402)	(71,829)
Gross Rent - Other Housing Properties	(3,187)	(3,362)
Charges for Services and Facilities	(9,602)	(9,793)
Housing Subsidy and Government Grants	(10,353)	(46,353)
Contribution towards Expenditure	(3,946)	(3,951)
<b>Total Income</b>	<b>(99,490)</b>	<b>(135,288)</b>
<b>EXPENDITURE</b>		
Supervision and Management - General Expenses	30,952	30,174
Supervision and Management - Special Expenses	6,171	6,366
Repairs and Maintenance	32,406	62,875
Rent, Rates and Other Charges	486	296
Rent Rebate Subsidy Shortfall	0	242
Contribution to Doubtful Debts Provision	474	730
Depreciation - Dwellings	29,444	25,530
Depreciation - Other Housing Assets	668	801
Impairment of Non Current Assets	0	(2,126)
Debt Management Expenses	26	26
<b>Total Expenditure</b>	<b>100,627</b>	<b>124,914</b>
<b>Net Cost of Services included in the Council's Income and Expenditure Account</b>	<b>1,137</b>	<b>(10,374)</b>
HRA Services share of Corporate and Democratic Core Costs	134	134
<b>Net Cost of HRA Services</b>	<b>1,271</b>	<b>(10,240)</b>
<b>HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement</b>		
(Gain) / Loss on Sale of HRA Non Current Assets	0	(14,130)
Interest Payable and Similar Charges	8,238	8,584
Interest and Investment Income	(604)	(422)
Net Pension Interest Cost	916	11,056
<b>(Surplus) / Deficit for the Year on HRA Services</b>	<b>9,821</b>	<b>(5,152)</b>

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**Housing Revenue Account**


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**HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT**

	<b>2015/16 £000</b>	<b>2014/15 £000</b>
<b>Balance on the HRA at the End of the Previous Year</b>	<b>35,912</b>	<b>26,546</b>
<u>Movement in Year</u>		
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	<b>(9,821)</b>	<b>5,152</b>
Adjustments between Accounting Basis and Funding Basis under Statute	<b>23,785</b>	<b>18,272</b>
<b>Net Increase or (Decrease) before Transfers (To) / From Reserves</b>	<b>13,964</b>	<b>23,424</b>
<b>Transfers (To) / From Reserves</b>	<b>(6,982)</b>	<b>(14,058)</b>
<b>Increase or (Decrease) in Year on the HRA</b>	<b>6,982</b>	<b>9,366</b>
<b>Balance on the HRA at the End of the Year</b>	<b>42,894</b>	<b>35,912</b>

An analysis of the amounts included within the figures for "Adjustments between Accounting Basis and Funding Basis under Statute" can be found within Note 7 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.

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**Housing Revenue Account**


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**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 2016, 0.61% of lettable property was empty (0.62% at 31 March 2015). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £98.42 In 2015/16 and £95.97 per week In 2014/15.

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 14,390 dwellings as at 31 March 2016 (14,637 as at 31 March 2015).

There have been no stock transfers undertaken in 2015/16.

The stock was made up as follows:

	31/03/16	31/03/15
<u>Stock Numbers at year end</u>		
Houses and Bungalows	2,416	2,423
Flats and Maisonettes	11,974	12,214
<b>Stock at End of Year</b>	<b>14,390</b>	<b>14,637</b>

	2015/16	2014/15
<u>Change in Stock Numbers during the year</u>		
Stock at 1 April	14,637	14,757
Less Sales, Demolitions, etc.	(248)	(128)
Add Re-purchases, Conversions etc.	1	8
<b>Stock at End of Year</b>	<b>14,390</b>	<b>14,637</b>

**b) Rent Arrears**

	2015/16 £000	2014/15 £000
Rent Arrears due from Current Tenants	3,113	3,331
Rent Arrears due from Former Tenants	2,145	1,813
<b>Total Arrears</b>	<b>5,258</b>	<b>5,144</b>
<b>Total Arrears as % of Gross Rent of Dwellings Due</b>	<b>6.1%</b>	<b>8.0%</b>

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.

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**Housing Revenue Account**


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**c) Rent – Other Housing Property**

	2015/16 £000	2014/15 £000
Aerial Sites	394	342
Garages	179	322
Reception Hostels	2,527	2,455
Commercial Property	28	184
Ground Rents	59	59
<b>Total Other Rents and Charges</b>	<b>3,187</b>	<b>3,362</b>

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

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £7.71 in 2015/16 (£7.72 in 2014/15).

	2015/16 £000	2014/15 £000
Heating Charges	566	730
Leasehold Service Charges	4,445	4,430
Tenants Service Charges	4,591	4,633
<b>Total Charges for Services and Facilities</b>	<b>9,602</b>	<b>9,793</b>

**2. GOVERNMENT HOUSING GRANTS AND SUBSIDY**

From 1<sup>st</sup> 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.

	2015/16 £000	2014/15 £000
Charges for Capital	0	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	36,000
<b>Total Grants and Subsidy</b>	<b>10,353</b>	<b>46,353</b>

**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 58% of tenants received help in 2015/16 (56% in 2014/15). 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.

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

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**Housing Revenue Account**


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	2015/16 £000	2014/15 £000
Rent Rebates Given (GF)	47,212	45,197
Subsidy Received on Rebates (GF)	(47,212)	(45,197)
<b>Net cost to the HRA</b>	<b>0</b>	<b>0</b>

**4. CONTRIBUTIONS TOWARDS EXPENDITURE**

	2015/16 £000	2014/15 £000
Commission on insurance and water rates	696	650
Recharges of repairs	2,280	2,225
Recharge to Capital Receipts	601	618
Hostels: Heat, Light and Water Charges	89	95
Other miscellaneous income	280	363
<b>Total Other Income</b>	<b>3,946</b>	<b>3,951</b>

**5. SUPERVISION AND MANAGEMENT**General 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. Gross repairs and maintenance expenditure for 2015/16 was £14.162m (2014/15 - £14.602m).

**7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE**

A contribution of £0.474m (2014/15 £0.730m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2015/16 £000	2014/15 £000
Housing Tenants	4,421	4,207
Leaseholders	1,837	1,946
Commercial Properties, Miscellaneous Debts	991	989
<b>Total Impairment Allowance</b>	<b>7,249</b>	<b>7,142</b>

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**Housing Revenue Account**


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**8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)**

Under the current HRA self-financing system, which began on 1<sup>st</sup> April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31<sup>st</sup> March 2016 was £74.8m (no change since 31<sup>st</sup> March 2015).

**9. NON CURRENT ASSETS VALUATION**

A full valuation of the housing stock is commissioned every year due to materiality. 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.

	<b>31/03/16</b> <b>£000</b>	<b>31/03/15</b> <b>£000</b>
<b>Operational Assets:</b>		
Dwellings (Existing Use Value - Social Housing)	1,153,891	1,058,091
Other Land and Buildings	13,973	26,267
Infrastructure	107	0
Vehicles, Plant and Equipment	7,374	5,792
	<b>1,175,345</b>	<b>1,090,150</b>
<b>Investment Properties</b>	<b>0</b>	<b>16,233</b>
<b>Total Housing Assets</b>	<b>1,175,345</b>	<b>1,106,383</b>
<b>Full Valuation of Council Dwellings</b>	<b>4,615,565</b>	<b>4,232,364</b>

**10. DEPRECIATION**

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

	<b>2015/16</b> <b>£000</b>	<b>2014/15</b> <b>£000</b>
<b>Operational Assets</b>		
Dwellings	29,444	25,562
Other Land and Buildings	294	615
Vehicles, Plant and Equipment	374	337
<b>Total Depreciation</b>	<b>30,112</b>	<b>26,514</b>

Depreciation is not charged on Non Operational Assets.

**11. INTEREST PAYABLE AND SIMILAR CHARGES**

This line includes the charge of £3.1m for capital assets calculated in accordance with the DCLG's Item 8 Debit Determination for 2015/16 (£3.2m in 2014/15). It also includes £0.477m for the net cost of amortised loan redemption premiums and discounts (£0.477 2014/15).

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**Housing Revenue Account**


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**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.

	2015/16 £000	2014/15 £000
<b>Expenditure:</b>		
Dwellings	3,757	4,694
Revenue Expenditure Funded from Capital under Statute	0	0
	<b>3,757</b>	<b>4,694</b>
<b>Financed by:</b>		
Capital Receipts	0	213
Major Repairs Reserve	3,757	4,481
<b>Total Capital Expenditure Financed</b>	<b>3,757</b>	<b>4,694</b>

**14. MAJOR REPAIRS RESERVE**

The movements on the major repairs reserve are as follows:

	2015/16 £000	2014/15 £000
<b>Balance brought forward at start of year</b>	<b>29,364</b>	<b>19,787</b>
Transferred in (depreciation dwellings)	30,112	26,331
Financing of capital expenditure on housing assets	(3,757)	(4,481)
Financing Major Revenue Repairs	(18,244)	(12,273)
Contributions from Revenue (Capital)	0	0
<b>Balance carried forward at end of year</b>	<b>37,475</b>	<b>29,364</b>

**15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES**

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

	Balance at 31/03/15 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/16 £000
Property and Stock Related Reserves	4,773	211	0	4,984
Staff Related Reserves	750	0	0	750
Other Earmarked Reserves	30,389	6,771	0	37,160
<b>Total Reserves and Balances</b>	<b>35,912</b>	<b>6,982</b>	<b>0</b>	<b>42,894</b>

## 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 Council Tax and to the Government in respect of NDR.

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 are included in the Council's Balance Sheet and its share of the transactions are included in the Council's Cash Flow Statement.

## COLLECTION FUND REVENUE ACCOUNT

	2015/16			2014/15			Note
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	
<b>INCOME</b>							
Income from Council Tax (net)	109,442		109,442	105,674		105,674	4
Income from Non-Domestic Rates (net)		54,498	54,498		54,530	54,530	5
<b>TOTAL INCOME</b>	<b>109,442</b>	<b>54,498</b>	<b>163,940</b>	<b>105,674</b>	<b>54,530</b>	<b>160,204</b>	
<b>EXPENDITURE</b>							
<b>Precepts and Demands upon Fund</b>							
- London Borough of Lewisham	80,084		80,084	78,404		78,404	
- Greater London Authority	23,652		23,652	22,108		22,108	
<b>Non-Domestic Rates</b>							
- Payment to National Pool		51,643	51,643		51,671	51,671	5
- Cost of Collection Allowance		307	307		306	306	5
<b>Business Rate Supplement</b>							
- Paid to Greater London Authority		1,212	1,212		1,459	1,459	5
- Administrative Costs		4	4		5	5	5
<b>Bad and Doubtful Debts</b>							
- Net adj to Impairment Allowance	1,729		1,729	2,004		2,004	6a
- Net adj to Impairment Allowance		(37)	(37)		546	546	6b
- Amounts Written Off	799		799	605		605	
- Amounts Written Off		1,369	1,369		543	543	5
<b>Contributions from previous year</b>							
- London Borough of Lewisham	4,864		4,864	2,334		2,334	
- Greater London Authority	0		0	659		659	
<b>Provision for Appeals</b>							
- London Borough of Lewisham		295	295		38	38	
<b>TOTAL EXPENDITURE</b>	<b>111,129</b>	<b>54,793</b>	<b>165,922</b>	<b>106,114</b>	<b>54,568</b>	<b>160,682</b>	
<b>Deficit / (Surplus) for the year</b>	<b>1,687</b>	<b>295</b>	<b>1,982</b>	<b>440</b>	<b>38</b>	<b>478</b>	3
<b>Deficit / (Surplus) at start of year</b>	<b>(5,796)</b>	<b>2,289</b>	<b>(3,507)</b>	<b>(6,236)</b>	<b>2,251</b>	<b>(3,985)</b>	3
<b>Deficit / (Surplus) at end of year</b>	<b>(4,109)</b>	<b>2,584</b>	<b>(1,525)</b>	<b>(5,796)</b>	<b>2,289</b>	<b>(3,507)</b>	

## 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 1<sup>st</sup> 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 2015/16 assumed a collection rate of 96.0% (95.5% for 2014/15).

The table below sets out the original tax base calculation for 2015/16 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 1<sup>st</sup> April 2013.

Council Tax Band	Property Value £000	2015/16		Band D Ratio	2015/16		2014/15	
		No. of Properties			Band D Equivalents as per Ratio	Council Tax Charge £	Band D Equivalents as per Ratio	Council Tax Charge £
		Actual Number (1)	Adjusted Number (2)					
A	up to 40	7,281	3,683	6/9	2,455.2	903.57	2,420.9	906.23
B	40 - 52	32,733	20,132	7/9	15,658.2	1,054.16	15,481.6	1,057.28
C	52 - 68	42,354	30,061	8/9	26,720.5	1,204.75	26,225.8	1,208.31
D	68 - 88	25,285	20,345	1	20,345.0	1,355.35	20,058.5	1,359.35
E	88 - 120	7,229	6,199	11/9	7,577.0	1,656.54	7,354.0	1,661.42
F	120 - 160	2,718	2,492	13/9	3,599.1	1,957.73	3,581.0	1,963.51
G	160 - 320	1,277	1,199	15/9	1,999.1	2,258.92	1,993.5	2,265.58
H	over 320	170	160	18/9	319.0	2,710.70	310.0	2,718.70
<b>Totals</b>		<b>119,047</b>	<b>84,270</b>		<b>78,673.1</b>		<b>77,425.3</b>	
Add: Contributions in lieu					0.0		0.0	
<b>Total Band D Equivalents</b>					<b>78,673.1</b>		<b>77,425.3</b>	
Estimated Collection Rate					96.0%		95.5%	
<b>NET COUNCIL TAX BASE</b>					<b>75,526.2</b>		<b>73,941.2</b>	

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

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

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**Collection Fund**


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**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.

**3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS**

	<b>(Surplus)/ Deficit</b>			<b>(Surplus)/ Deficit</b>	
	<b>Balance at 31/03/14 £000</b>	<b>Movement in 2014/15 £000</b>	<b>Balance at 31/03/15 £000</b>	<b>Movement in 2015/16 £000</b>	<b>Balance at 31/03/16 £000</b>
<b>Council Tax</b>					
London Borough of Lewisham	(4,795)	272	(4,523)	1,303	(3,220)
Greater London Authority	(1,441)	168	(1,273)	384	(889)
	<b>(6,236)</b>	<b>440</b>	<b>(5,796)</b>	<b>1,687</b>	<b>(4,109)</b>
<b>Non-Domestic Rates</b>					
London Borough of Lewisham	675	12	687	89	776
Greater London Authority	450	8	458	59	517
Central Government	1,126	18	1,144	148	1,292
	<b>2,251</b>	<b>38</b>	<b>2,289</b>	<b>296</b>	<b>2,585</b>
<b>Collection Fund Balances</b>	<b>(3,985)</b>	<b>478</b>	<b>(3,507)</b>	<b>1,983</b>	<b>(1,524)</b>

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**

	<b>2015/16</b>		<b>2014/15</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Gross Council Tax Income Due</b>		<b>150,100</b>	<b>149,144</b>
Less: Adjustments to charge	<b>1,362</b>		915
Exemptions	<b>(3,661)</b>		(3,807)
Disabled Relief	<b>(65)</b>		(65)
Discounts	<b>(15,010)</b>		(15,156)
Adjustment for Council Tax Reduction Scheme	<b>(23,285)</b>		(25,357)
		<b>(40,658)</b>	<b>(43,470)</b>
<b>Total Due from Council Tax payers</b>		<b>109,442</b>	<b>105,674</b>
Transfers from General Fund for Council Tax Benefits		<b>0</b>	0
<b>Net Amount of Council Tax Receivable</b>		<b>109,442</b>	<b>105,674</b>

## 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 over to the Government and an amounts is then redistributed back to the Council via the formula grant mechanism. The Council's share of this redistributed money is paid into the General Fund.

	2015/16		2014/15
	£000	£000	£000
<b>Gross NDR Collectable (after voids and exemptions)</b>		62,122	61,529
<b>Reductions and Relief:</b>			
Mandatory Relief	(7,441)		(6,777)
Discretionary Relief	(182)		(222)
		(7,624)	
<b>Total Receivable from Business Rates</b>		54,498	54,530
Irrecoverable Amounts Written Off		(1,369)	(543)
Net Adjustment to Impairment Allowance		37	(546)
<b>Net Amount Collectable from Business Ratepayers</b>		53,166	53,441
<b>Business Rate Supplement</b>			
Payment to Greater London Authority	(1,212)		(1,459)
Administrative Costs	(4)		(5)
		(1,216)	
<b>NDR</b>			
Cost of Collection Allowance transfer		(307)	(306)
<b>Amount Payable to NDR Pool</b>		51,643	51,671

	2015/16 £m	2014/15 £m
<b>Non-Domestic Rateable Value</b>	138.5	138.7

	2015/16 pence	2014/15 pence
<b>Non-Domestic Rate Multiplier</b>	49.3	48.2
<b>Non-Domestic Rate Multiplier (Small Business)</b>	48.0	47.1

## 6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

## a) Council Tax

	31/03/16 £000	31/03/15 £000
Arrears of income from court costs and penalties resulting from recovery action are accounted for in the General Fund	33,080	31,365
Impairment Allowance	(30,617)	(28,888)
As a Percentage of Arrears	92.6%	92.1%

2015/16		2014/15	
Amount	Percentage	Amount	Percentage

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**Collection Fund**


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**b) Non-Domestic Rates**

	<b>31/03/16</b> <b>£000</b>	<b>31/03/15</b> <b>£000</b>
NDR Arrears	4,959	5,015
Impairment Allowance	(3,064)	(3,101)
As a Percentage of Arrears	61.8%	61.8%

	<b>2015/16</b>		<b>2014/15</b>	
	<b>Amount</b> <b>£000</b>	<b>Percentage</b> <b>%</b>	<b>Amount</b> <b>£000</b>	<b>Percentage</b> <b>%</b>
<b>Age of Arrears</b>				
Year of Accounts	1,338	27	1,297	26
Under 2 Years old	881	18	974	19
Under 3 Years old	835	17	876	17
Under 5 Years old	1,304	26	1,373	27
Over 5 Years old	600	12	495	10
<b>Total</b>	<b>4,959</b>	<b>100</b>	<b>5,015</b>	<b>100</b>

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

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**Glossary**

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**SECTION 6 - GLOSSARY OF TERMS USED IN THE ACCOUNTS**

<b>ACCRUALS</b>	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.
<b>ACTUARY</b>	An independent professional who advises on the financial position of the Pension Fund and carries out a full valuation every three years.
<b>CAPITAL EXPENDITURE</b>	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.
<b>CAPITAL ADJUSTMENT ACCOUNT</b>	This represents the capital resources which have been set aside to meet past capital expenditure.
<b>CAPITAL RECEIPTS</b>	Income received from the sale of land, buildings and plant.
<b>COLLECTION FUND</b>	A separate statutory account into which Council Tax and Non-Domestic Rates are paid in order to account for payments due to the Council's General Fund and Preceptors (currently the Greater London Authority).
<b>CONTINGENT LIABILITY</b>	A possible liability to incur future expenditure at the balance sheet date dependent upon the outcome of uncertain events.
<b>CREDITORS</b>	This is an amount of money owed by the Council for goods, works or services received.
<b>DEBTORS</b>	This is an amount of money owed to the Council by individuals and organisations.
<b>DEPRECIATION</b>	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.
<b>EARMARKED RESERVES</b>	These are amounts set aside for specific purposes to meet future commitments or potential liabilities, for which it is not appropriate to establish provisions.
<b>FAIR VALUE</b>	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.
<b>GENERAL FUND</b>	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.
<b>INFRASTRUCTURE</b>	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.

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**Glossary**

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<b>LEASES</b>	<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>
<b>MEMORANDUM ACCOUNT</b>	<p>These Accounts are not part of the Council's formal statutory Accounts and are included in the Statement for added information.</p>
<b>MINIMUM REVENUE PROVISION (MRP)</b>	<p>The prudent amount which must be charged to the Council's revenue account each year for the principal repayment of debt.</p>
<b>NON-DOMESTIC RATES (NDR)</b>	<p>These are set by the Government and collected by the Council and paid into a central pool. The Government pays back to the Council a share of the pool as part of the grant allocation system.</p>
<b>PRIVATE FINANCE INITIATIVE (PFI)</b>	<p>This is an 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>
<b>PRECEPTS</b>	<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.</p>
<b>PROVISIONS</b>	<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>
<b>REVALUATION RESERVE</b>	<p>This represents the gains on the revaluation of non-current assets which have not yet been realised through sales.</p>
<b>REVENUE SUPPORT GRANT (RSG)</b>	<p>This is the main general grant which is paid to the Council by Central Government to fund local services.</p>
<b>REVENUE EXPENDITURE</b>	<p>Day-to-day expenditure incurred in the running of Council services, e.g. salaries, wages, supplies and services.</p>
<b>SPECIAL PURPOSE VEHICLE</b>	<p>This is a legal entity (usually a limited company) created to fulfil narrow, specific or temporary objectives.</p>
<b>SUPPORT SERVICES</b>	<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>

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**ACRONYMS**

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**COMMON ACRONYMS USED IN THE ACCOUNTS**

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

Lewisham  
Annual Governance Statement  
2015/16

## 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.

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 2011 in relation to the publication of a statement on internal control.

*“Corporate governance is about making sure 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 a team of 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) on a quarterly basis.
- The consideration of the Accounts, the Head of Audit and Risk's Annual Report and

the Annual Governance Statement by the Council's Audit Panel.

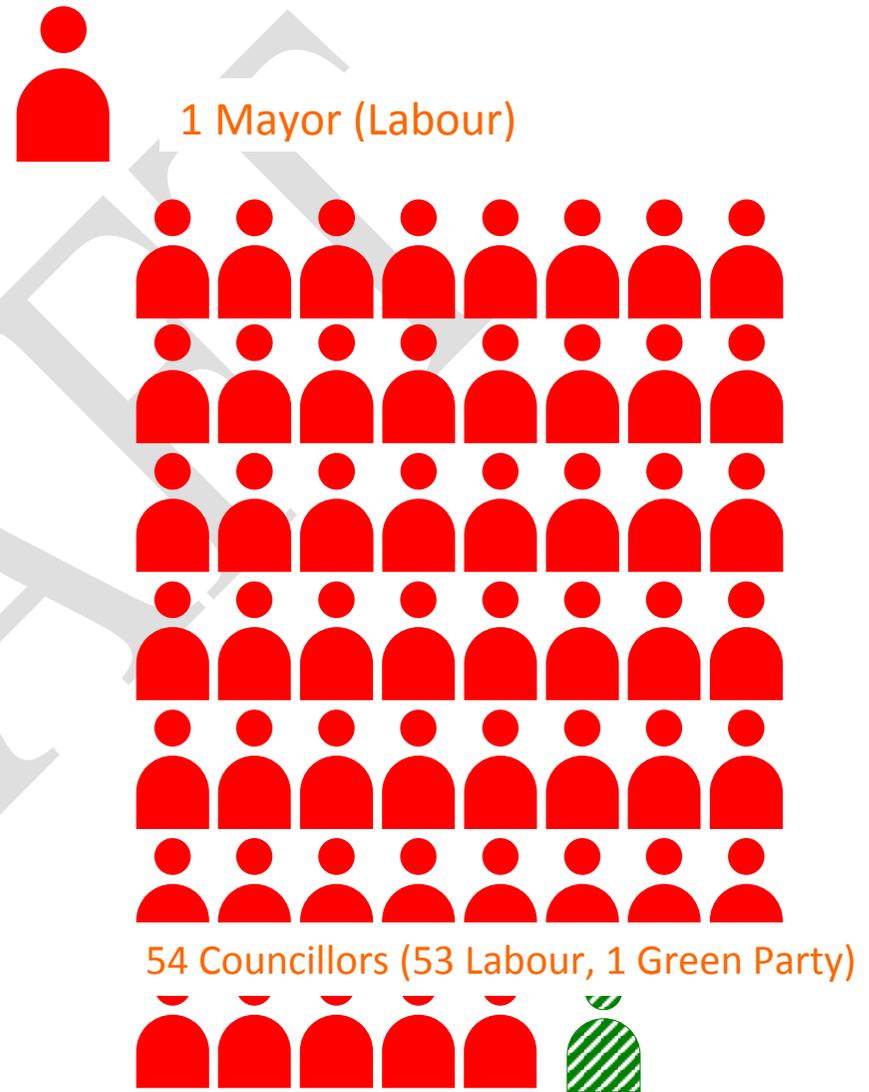
- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts.
- Sign off by the Chair of the Council and Chief Executive, once approved.
- This year no significant gaps or governance issues have been identified and the actions outlined at the end of this statement summarise the areas of governance focus needed to maintain an effective governance framework.

## 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.



### Council

- Consists of 54 elected councillors, three from each of the 18 wards.
- Appoints the overview & scrutiny committee and other committees.
- Approves the policy framework and budget.

Communities Select Committee  
Environment Committee

Housing Select Committee

Scrutiny

Ageing and Community Care Committee  
Statutory Standards Committee  
Young People Select Committee

- promotes high standards of conduct.
- Pension Board**
- secures compliance with Local Government Pension Scheme.

### Overview and Scrutiny

- Meets at least once a year and is ultimately responsible for overview and scrutiny;
- Delegates work to other scrutiny bodies – six select committees, two business panels all of which are formally subcommittees of overview and scrutiny;
- The Business Panel co-ordinates the select committees work programmes.
- The six select committees draw up work programmes each year to:
  1. Hold the Mayor and senior officers to account for decisions and check performance.
  2. Examine issues in depth and make recommendations for policy development.

*To find out what each of the Select Committees does please click the links below*

### Regulatory Committees

#### Licensing committees (x2)

- responsible for all entertainment licensing and the provision of late night refreshment.

#### Planning committees(x4)

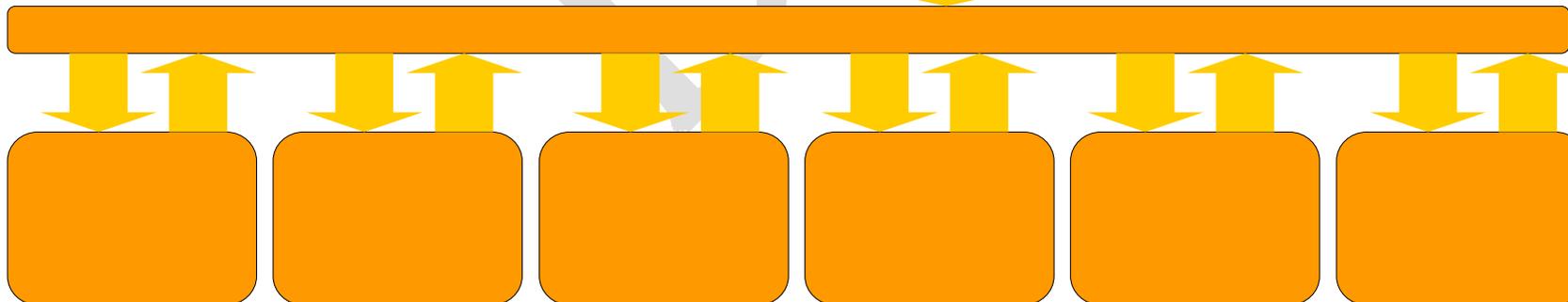
- consider planning matters across the whole borough. The Strategic Planning Committee consider strategic regeneration proposals.

#### Other Committees & Working Parties

- Audit Panel
- Appointments
- Elections
- Health & Safety
- Pensions Investment
- Constitution

#### Internal Control Board:

- Manages the approach to risk.



*‘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) 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 2014/15 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 2015”*

The Council's performance is monitored via a monthly management report which tracks **27 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 process. In addition, where areas for improvement are identified, the Council acts swiftly to address them. For example, following Ofsted's inspection of children's social care in Lewisham, the Council has worked with its partners to develop a robust improvement plan to address the nine recommendations arising from the regulator's report.

The *Lewisham Future Programme* has been established to spearhead how the Council can move forward in the face of reduced government funding. A number of thematic and cross-cutting reviews are being carried out. 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.

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### 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 2015 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.

*'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. Four matters were called in by the Education Business Panel in the 2015/16 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.

### **Internal Audit**

The role of internal audit is to provide an independent and 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 2015/16 71 assurance reviews were commissioned. There were 14 in the Resources and Regeneration Directorate, 17 in the Customer Services Directorate, 7 in the Community Services Directorate, 8 in the Children and Young People Directorate and 26 for Schools.

### **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, which was published in October 2015 noted that

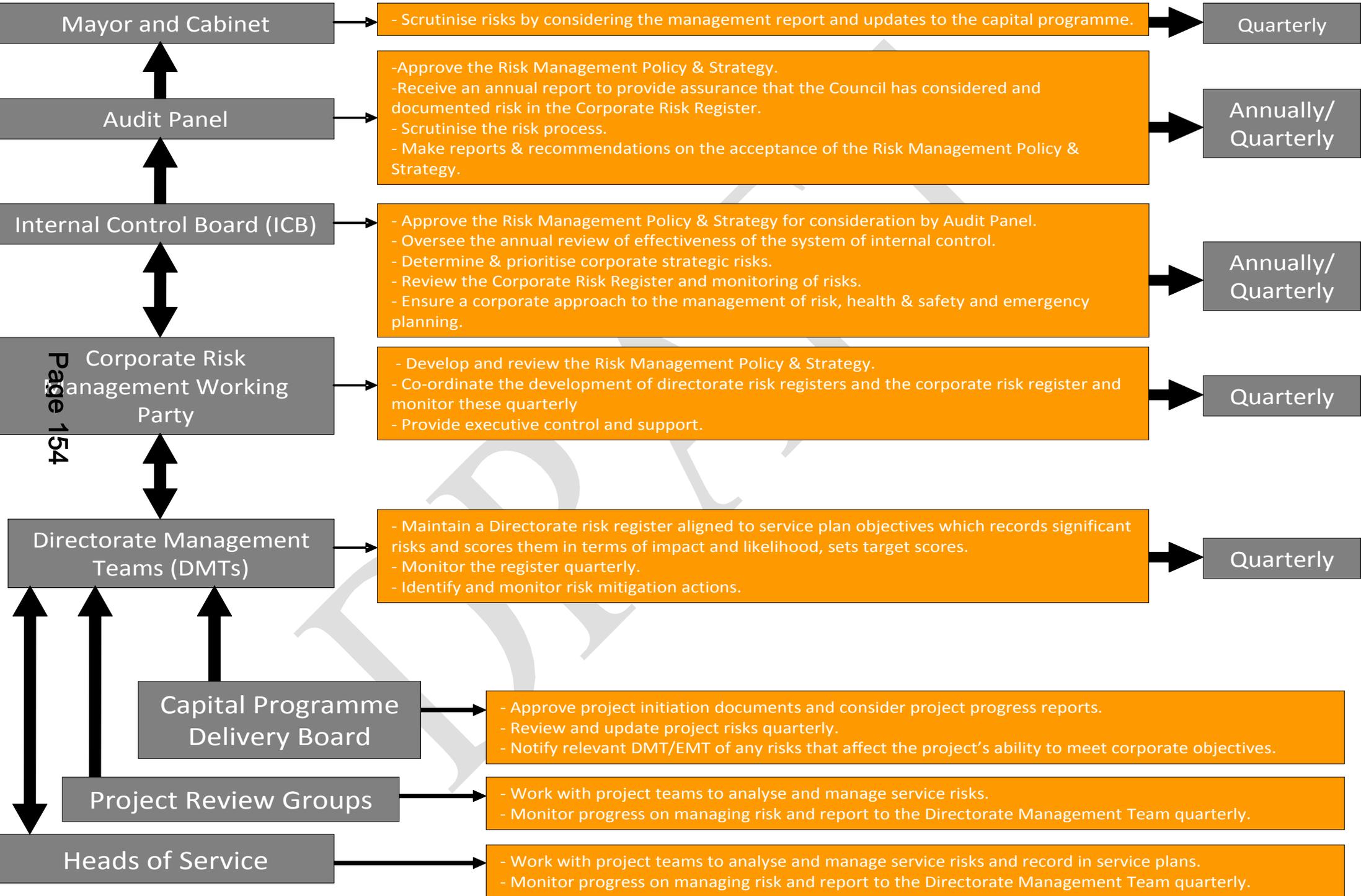
*"... we are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources..."*

### **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. In 2015 the Council commissioned an independent organisation to run a borough-wide Residents Survey. The survey provided local residents with the opportunity to express their views on a wide range of issues such as their experience of living in the borough and their views of the Council's performance.

### **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 Corporate 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 2015)
  - Review of Whistle-blowing Policy (December 2015)

- Review of Compliance with the Council's Code of Corporate Governance (May 2015)

- 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 change across Council services in light of the further budget reductions the Council faces, whilst at the same time maintaining internal control;
- Responding to policy and priority changes for Lewisham, following the Queen's Speech in May 2016.

- Addressing the external and internal audit findings reported to the Audit Panel in 2015/16 to maintain and, where necessary, improve the Council's financial controls.

Signed

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DRAFT

**DRAFT  
PENSION  
FUND  
ACCOUNTS**

**2015/16**

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**Pension Fund Accounts**

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**INSERT AUDIT LETTER**

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**Pension Fund Accounts**

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## **PENSION FUND ACCOUNTS**

### **FOREWORD**

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2015/16.

The Pension Fund's value fell over the year by approximately £800k, mainly due to a decrease in the value of equities during the year.

### **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 2009.

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 Statement of Investment Principles (see web address 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 principles can be found on the authority's website, at the following address:

<http://www.lewishampensions.org/>

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**Pension Fund Accounts**

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## **ACCOUNTING POLICIES**

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 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 2008 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 in November to comply with this deadline.

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

- (a)** 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.
- (b)** Investments - Investments in the Net Assets Statement are shown at market value based on bid prices, as required by the 2015/16 Local Authority Code of Practice and the IAS 26 Retirement Benefit Plans. 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.
- (c)** 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.
- (d)** Income - Dividend income earned from equity and bonds (excluding Private Equity) is reinvested by Investment Managers and not repaid directly to the fund

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**Pension Fund Accounts**


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as cash. 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.

- (e) 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<sup>st</sup> March 2016 is the actual fair value using the latest available valuation on or after 31<sup>st</sup> December 2015, plus an estimated valuation for the period up to 31<sup>st</sup> March 2016.
- (f) 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 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 on the basis of their open market value (OMV).

The only non-UK fund is the Continental European Fund 1. 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 funds are independently valued on a rolling basis at least annually.

- (g) Financing - The fair value of the M&G financial instruments is based on their quoted market prices at the statement of financial position date without any deduction for estimated future selling costs. Due to timing differences in the valuation of this investment, the value carried in the accounts as at 31<sup>st</sup> March 2016 is the actual fair value using the latest available valuation on or after 31<sup>st</sup> December 2015, plus an estimated valuation for the period up to 31<sup>st</sup> March 2016.
- (h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1<sup>st</sup> April 2015 the employee contribution bands (revised annually in line with inflation) are as follows:

<b>Full time pay for the post</b>	<b>Contribution rate 15/16</b>
Up to £13,600	5.5%
£13,601 to £21,200	5.8%
£21,201 to £34,400	6.5%
£34,401 to £43,500	6.8%
£43,501 to £60,700	8.5%
£60,701 to £86,000	9.9%
£86,001 to £101,200	10.5%
£101,201 to £151,800	11.4%
More than £151,801	12.5%

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**Pension Fund Accounts**


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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 2015/16 is 22.0% and for 2016/17 it will be 22.5%.

- (i) 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.
- (j) 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.
- (k) 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.
- (l) VAT – By virtue of Lewisham Council being the administering authority, VAT input tax is recoverable on fund activities. Any irrecoverable VAT is accounted for as an expense.
- (m) 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 actuarial valuation carried out under Regulation 36 of the LGPS (Administration) Regulations 2008 was as at 31 March 2013.

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

<b>Financial assumption</b>	<b>March 2013 %</b>	<b>March 2010 %</b>
Discount Rate	4.6	6.1
Price Inflation	3.3	3.3
Pay Increases	4.3	5.3*
Pension Increase:		
Pension in excess of GMP	2.5	3.3
Post - 88 GMP	2.5	2.8
Pre - 88 GMP	0.0	0.0
Revaluation of Deferred Pension	2.5	3.3
Expenses	0.7	0.6

\* The assumption for 2010 was actually 1% p.a for 2010/11 and 2011/12 and 5.3% thereafter.

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**Pension Fund Accounts**

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With effect from the 1 April 2015, the actuarial review carried out for 31 March 2013 resulted in an increase to the Council's contribution rate of 0.5% (i.e. to 22%) for 2015/16. This will be followed by annual increases of 0.5% for 2016/17. The next actuarial valuation of the Fund is underway and will be carried out as at 31 March 2016, with new employer contribution rates taking effect from 1 April 2017 for the 2017/18 financial year.

The triennial valuation on the 31st March 2013 revealed that the Fund's assets, which at 31 March 2013 were valued at £868 million, were sufficient to meet 71.4% (75.4% in 2010) of the current liabilities valued at £1,216 million (£949 million in 2010) accrued up to that date. The resulting deficit as at the 2013 valuation was £348million (£234 million in 2010).

**Actuarial Present Value of Promised Retirement Benefits**

- (n) The Actuary has calculated the actuarial present value of future retirement benefits (on an IAS 26 basis) to be £1,570 million as at 31st March 2016 (£1,683 million as at 31st March 2015).
- (o) 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. The Council's administrative costs are shown in the Fund Account as part of expenditure.
- (p) 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.

## Pension Fund Accounts

**(q) 2015/16 Financial Year Summary of the Fund's Market Value**

<b>Fund Manager</b>	<b>Assets</b>	<b>Assets Value 2015/16 £'000</b>	<b>Assets Value 2014/15 £'000</b>	<b>Proportion of Fund 2014/15 (%)</b>
<b>Schroders Property</b>	Property	97,527	88,262	9.4
<b>HarbourVest</b>	Private Equity	41,247	44,167	4.0
<b>UBS</b>	Passive Equity and Bonds	430,848	433,052	41.4
<b>Blackrock</b>	Passive Equity and Bonds	432,402	433,790	41.5
<b>Investec</b>	Commodities	0	31,784	0.0
<b>M&amp;G</b>	Credit	14,869	14,447	1.4
<b>Securities Lending</b>	Securities Lending	109	100	-
<b>Unallocated Funds</b>	Cash	24,358	198	2.3
<b>Lewisham</b>	Cash and Net Current Assets	394	(3,242)	-
<b>Total Fund</b>		<b>1,041,754</b>	<b>1,042,558</b>	<b>100.0</b>

**(r)** 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 13.

**(s)** 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.

**(t)** 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

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**Pension Fund Accounts**

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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 and M&G 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 distributions and capital calls up to 31 March.

- (u)** 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 2009, 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 within transfers-in. Further details about the AVC arrangements are disclosed in note 15 to the financial statements.

## Pension Fund Accounts

## FUND ACCOUNT FOR THE YEAR

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

<b><u>FUND ACCOUNT FOR THE YEAR ENDED</u></b> <b><u>31st MARCH 2016</u></b>	<b>2015/16</b> <b>£'000s</b>	<b>2014/15</b> <b>£'000s</b>	<b>Note</b>
<b><u>DEALINGS WITH MEMBERS, EMPLOYERS</u></b> <b><u>AND OTHERS</u></b> <b><u>DIRECTLY INVOLVED WITH THE SCHEME</u></b>			
<b>Contributions Receivable:</b>			
- from Employer	31,019	30,471	1
- from Employees	9,272	9,774	1
- Reimbursement for Early Retirement	1,898	1,604	
Transfer Values In	1,409	1,572	
Other Income	221	3	
<b>Sub-Total: Income</b>	<b>43,819</b>	<b>43,424</b>	
<b>Benefits Payable:</b>			
- Pensions	37,629	35,476	2
- Lump Sums: Retirement allowances	8,087	8,478	
- Lump Sums: Death grants	1,048	528	
<b>Payments to and on account of leavers:</b>			
- Refunds of Contributions	81	52	
- Transfer Values Out	2,709	3,190	
Administrative and other expenses borne by the scheme	928	941	3
<b>Sub-Total: Expenses</b>	<b>50,581</b>	<b>48,665</b>	
<b>Total Net additions (withdrawals) from Dealings with Scheme Members</b>	<b>(6,762)</b>	<b>(5,241)</b>	

## Pension Fund Accounts

<b>Pension Fund Accounts</b>			
<b><u>RETURNS ON INVESTMENTS</u></b>			
Investment Income	6,436	6,978	4
Change in market value of investments (Realised and Unrealised)	1,013	137,859	5a
<b>Investment Expenses:</b>			
- Investment Management Fees	(1,383)	(1,443)	6
- Tax on Dividends	(207)	(389)	
<b>Total Net Returns on Investments</b>	<b>5,958</b>	<b>143,005</b>	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	(804)	137,764	
OPENING NET ASSETS OF THE SCHEME	1,042,558	904,794	
<b>CLOSING NET ASSETS OF THE SCHEME</b>	<b>1,041,754</b>	<b>1,042,558</b>	

## Pension Fund Accounts

## NET ASSETS STATEMENT

The Net Assets Statement shows the market value of the investments and other assets held by the Pension Fund as at 31 March 2016.

<b>NET ASSETS STATEMENT AT 31 MARCH 2015</b>	<b>2015/16</b>	<b>2014/15</b>	<b>Note</b>
	<b>£000s</b>	<b>£000s</b>	
<b>-</b>			
<b>EQUITIES</b>			
Equities: UK	8,734	8,777	5
Equities: Global	11,949	11,228	5
	<b>20,683</b>	<b>20,005</b>	
<b>MANAGED FUNDS</b>			
Property	96,286	82,286	5
Equity	656,078	662,071	5
Fixed Interest	161,327	159,838	5
Index Linked	32,876	32,410	5
Other Assets	33,077	65,028	5
	<b>979,621</b>	<b>1,001,633</b>	
<b>CASH HELD WITH CUSTODIAN</b>	40,667	23,775	10
<b>DERIVATIVE CONTRACTS</b>			
Assets	0	0	8
Liabilities	0	0	8
<b>OTHER INVESTMENT BALANCES</b>			
Debtors: Investment Transactions	389	387	9
Creditors: Investment Transactions	(0)	(0)	9
	<b>1,041,360</b>	<b>1,045,800</b>	
<b>TOTAL INVESTMENTS</b>			
<b>NET CURRENT ASSETS AND LIABILITIES</b>			
Debtors	974	1,226	9
Creditors	(853)	(4,740)	9
Cash in Hand	273	272	10
	<b>1,041,754</b>	<b>1,042,558</b>	
<b>TOTAL NET ASSETS</b>			

**Pension Fund Accounts**

The financial statements of the fund do not take account of the liability to pay pensions or benefits after 31<sup>st</sup> March 2016. This liability is included within the Authority's balance sheet.

**NOTES TO THE PENSION FUND ACCOUNTS****1. CONTRIBUTIONS RECEIVABLE**

<b><u>Employer Contributions</u></b>	<b>2015/16</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
Administering	25,191	24,974
Admitted	638	809
Scheduled	5,190	4,688
	<u>31,019</u>	<u>30,471</u>

<b><u>Employee Contributions</u></b>	<b>2015/16</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
Administering	7,479	7868
Admitted	219	381
Scheduled	1,574	1,525
	<u>9,272</u>	<u>9,774</u>

<b><u>2. BENEFITS PAYABLE</u></b>	<b>2015/16</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
Administering		22,652
Admitted		383
Scheduled		1,174
Pensions Increases	11,442	11,267
	<u>37,629*</u>	<u>35,476*</u>

\* includes Dependents Pensions

<b><u>3. ADMINISTRATION COSTS</u></b>	<b>2015/16</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
Lewisham Administration	586	614
Administrative costs*	334	305
Other Costs	0	14
Bank Charges	8	8
	<u>928</u>	<u>941</u>

\*includes Grant Thornton Audit fees

<b><u>4. INVESTMENT INCOME</u></b>	<b>2015/16</b> <b>£000s</b>	<b>2014/15</b> <b>£000s</b>
Cash	136	184
Equity	321	1,536
Fixed Interest	1,009	0
Index Linked	254	277

<b>Pension Fund Accounts</b>		
Managed Funds Incl Property	4,648	4,930
Securities Lending	9	7
Other	59	44
	<u>6,436</u>	<u>6,978</u>

## 5. INVESTMENT ANALYSIS

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

Asset	Manager	31 <sup>st</sup> March 2016	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	146,076	15.1
UBS GBL Asset Life North America Equity Tracker	UBS	134,737	13.9
UBS Global Life UK Equity Tracker Fund	UBS	87,569	9.0
Blackrock Pensions Aquila Life UK Equity Index	Blackrock	86,527	8.9

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

Asset	Manager	31 <sup>st</sup> March 2016	
		Value £'000	%
<b>UK Equities</b>			
Harbourvest GE PE Shares	Harbourvest	8,739	100
<b>Global Equities</b>			
Commonwealth Bank of Australia	UBS	662	6.5
Westpac BKG Corp	UBS	511	5.0
<b>Property</b>			
Hercules Unit Property	Schroder	4,844	5.0
Hermes Property unit	Schroder	9,178	9.5
IPIF Feeder Unit Trust	Schroder	5,122	5.3
legal and General property Funds	Schroder	12,543	13.0
Real Income FD	Schroder	8,681	9.0
Schroder unit TST Uk Real Estate Sref INC	Schroder	13,534	14.0
Standard Life Pooled Property Fund	Schroder	11,798	12.3
<b>Managed Equities</b>			
UBS ASST MGMT Lift Uk Equity	UBS	87,569	13.3
UBS GBL Asset Life North America	UBS	134,737	20.5

## Pension Fund Accounts

UBS ASST MGMT Life Euro Ex	UBS	38,830	5.9
Aquila Life European Equity index	Blackrock	39,545	6.0

Asset	Manager	31 <sup>st</sup> March 2016	
		Value £'000	%
BlackRock Pension Aquila Life UK	Blackrock	86,477	13.2
Aquila Life Uk Equity Index Fund	Blackrock	145,998	22.2
<b>Fixed Interest</b>			
UBS Asst Management STG Corp	UBS	32,404	19.9
BlackRock AM (IE)Uk Credit	Blackrock	31,783	19.6
Aquila Life Over 5 Years	Blackrock	31,842	19.6
BlackRock Pension Aquila over 15 years UK	Blackrock	33,011	20.3
<b>Index Linked</b>			
UK(Government Of) 0.75% I/L 22/3/34 Gbp	UBS	1,737	5.2
UK(Government Of) 1.25% I/L 22/11/2027	UBS	1,730	5.2
UK(Government Of) 0.125% I/L Gilt 22/3/68 Gbp	UBS	1,674	5.1
UK (Govt Of) 0.375% Idx-Lkd Gilt 22/3/62	UBS	1,821	5.5
UK(Govt)Of) 0.5% Idx/Lkd 22/3/50 Gbp	UBS	1,682	5.1
UK (Govt Of) 0.625% Idx/Lkd 22/03/40 Gbp	UBS	1,848	5.6
UK (Govt Of) 0.75% I/L Stk 22/11/2047	UBS	1,694	5.1
UK (Govt Of) 1.25% Idx-Lkd Gilt 2055 Gbp	UBS	2,044	6.2
UK( Govt Of) 1.875% I/L Stk 22/11/22 Gbp	UBS	1,647	5
<b>Others</b>			
International PE Ptrs V Cayman Ptnship Fd	Harbourvest	7,101	15
Partners Viii Cayman Venture Fund LP	Harbourvest	5,471	11.6
HIPEP Vii (AIF) Partnership Fund LP	Harbourvest	3,998	8.4
Ptrs Viii Cayman Buyout	Harbourvest	7,272	15.4
M&G UK Companies Financing Fund	M&G	7,556	16.0

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**Pension Fund Accounts**


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An analysis of investment movements is set out below:

<b>5. INVESTMENT ANALYSIS</b>	<b>Value at</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in</b>	<b>Change in</b>	<b>Value at</b>
<b>Investments</b>	<b>31/03/2015</b>	<b>at Cost</b>	<b>Proceeds</b>	<b>Capital Value</b>	<b>Market Value</b>	<b>31/03/2016</b>
	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
<b>UK Equities</b>	8,777	0	0	0	-43	8,734
<b>Global Equities</b>	11,228	2,152	-1,450	17	0	11,947
<b>Equities</b>	662,071	17,736	-15,525	29	-8,231	656,080
<b>Property</b>	82,286	8,906	-58	-830	5,959	96,263
<b>Fixed Interest Securities</b>	159,838	0	0	0	1,489	161,327
<b>Index Linked Securities</b>	32,410	0	0	0	466	32,876
<b>Other*</b>	65,028	5,341	-38,330	-54	1,092	33,077
<b>Derivatives</b>	0	0	0	0	0	0
	<b>1,021,638</b>	<b>34,135</b>	<b>-55,363</b>	<b>-838</b>	<b>732</b>	<b>1,000,304</b>
<b>Cash deposits</b>	23,775				281	40,667
<b>Other Investment Balances</b>	387					389
	<b>1,045,800</b>				<b>1,013</b>	<b>1,041,360</b>

\* Includes Venture Capital, Credit Mandates and Private equity (and Commodities in 2014/15 only).

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

Apart from Global Equities and bonds, the only other overseas investment held by the Fund fall under the 'Other' category and is namely Private Equity £25.4m.

The total value of unquoted securities held by the fund as at 31<sup>st</sup> March 2016 was £711m, this includes equities, bonds and other assets.

**Pension Fund Accounts**

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The total value of quoted securities held by the fund as at 31st March 2016 was £193m, this includes equities and bonds.

The Fund has investment assets that are classed as pooled investment vehicles. The Fund holds Unit Trusts valued at £490m, Unitised Insurance Policies valued at £363m, and other managed funds valued at £25m.

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**Pension Fund Accounts**


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As at 31<sup>st</sup> March 2015:**5.  
INVESTMENT  
ANALYSIS**

	<b>Value at 31/03/14</b>	<b>Purchases At Cost</b>	<b>Sales Proceed s</b>	<b>Change in Capital Value</b>	<b>Change in Market Value</b>	<b>Value at 31/03/15</b>
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Investments</b>						
<b>UK Equities</b>	6,505	0	0	(152)	2,424	8,777
<b>Global Equities</b>	10,389	17	(1)	(73)	896	11,228
<b>Property Managed Equities</b>	75,732	12,059	(9,991)	(3,965)	8,451	82,286
<b>Fixed Interest Securities</b>	558,575	13,627	(850)		90,719	662,071
<b>Index Linked Securities</b>	142,268	3,728	(12,436)		26,278	159,838
<b>Other*</b>	28,476	3,515	(5,265)		5,684	32,410
<b>Derivatives</b>	71,689	1,356	(11,266)		3,249	65,028
	0	0	0			
	<b>893,634</b>	<b>34,302</b>	<b>(39,809)</b>	<b>(4,190)</b>	<b>137,701</b>	<b>1,021,638</b>
<b>Cash deposits</b>	10,651					23,775
<b>Other Investment Balances</b>	471				158	387
	<b>904,756</b>				<b>137,859</b>	<b>1,045,800</b>

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**Pension Fund Accounts**


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**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.

31 <sup>st</sup> March 2016			Financial Assets	31 <sup>st</sup> March 2015		
Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Fair Value through Profit and Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
20,683			Equities	20,005		
			Managed Funds			
96,263			Property	82,286		
656,078			Managed Equity	662,071		
161,327			Fixed Interest	159,838		
32,876			Index Linked	32,410		
33,077			Other Assets	65,028		
0			Derivative contracts	0		
	40,667		Cash deposits		23,775	
	0		Pending Trades		0	
	389		Dividends & Income		387	
	953		Contributions Due		1,191	
	273		Cash Balances		272	
	21		Other Current Assets		35	
<b>1,000,304</b>	<b>42,303</b>		<b>Total Financial Assets</b>			

## Pension Fund Accounts

31 <sup>st</sup> March 2016			Financial Assets	31 <sup>st</sup> March 2015		
Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Fair Value through Profit and Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			<b>Financial Liabilities</b>			
		0	Derivative Contracts			0
		0	Pending Trades			0
		0	Unpaid benefits			(374)
		(853)	Other current Liabilities			(4,366)
		(853)	<b>Total Financial Liabilities</b>			(4,740)
<b>1,000,304</b>	<b>42,303</b>	<b>(853)</b>	<b>Net Financial Assets</b>	<b>1,021,638</b>	<b>25,660</b>	<b>(4,740)</b>

## Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2016		31 March 2015
£'000	Financial Assets	£'000
1,013	Fair Value through Profit and Loss	137,859
0	Loans and Receivables	0
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
<b>1,013</b>	<b>Total</b>	<b>137,859</b>

## Valuation of Financial Instruments carried at Fair Value

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

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).

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).

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.

## Pension Fund Accounts

Values as at 31 <sup>st</sup> March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	20,683	946,544	33,077	<b>1,000,3047</b>
Loans and Receivables	42,303			<b>42,303</b>
<b>Total Financial Assets</b>	<b>62,986</b>	<b>946,544</b>	<b>33,077</b>	<b>1,042,607</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(853)			<b>(853)</b>
<b>Total Financial Liabilities</b>	<b>(853)</b>			<b>(853)</b>
<b>Net Financial Assets</b>	<b>62,133</b>	<b>946,544</b>	<b>33,077</b>	<b>1,041,754</b>

Values as at 31 <sup>st</sup> March 2015	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs Level 3	Total
	Level 1	Level 2		
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	20,005	966,243	35,390	1,021,638
Loans and Receivables	25,660			25,660
<b>Total Financial Assets</b>	<b>45,665</b>	<b>966,243</b>	<b>35,390</b>	<b>1,047,298</b>
<b>Financial Liabilities</b>				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(4,740)			(4,740)
<b>Total Financial Liabilities</b>	<b>(4,740)</b>			<b>(4,740)</b>
<b>Net Financial Assets</b>	<b>40,925</b>	<b>966,243</b>	<b>35,390</b>	<b>1,042,558</b>

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**Pension Fund Accounts**

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**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 revised investment strategy.

The Fund's investments are held by Northern Trust, who act as custodian 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

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**Pension Fund Accounts**


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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 2015/16 reporting period.

<b>Asset Type</b>	<b>Potential Market Movement +/- (%p.a.)</b>
UK Equities	
Overseas Equities	
Total Bonds	
Cash	
Alternatives	
Property	

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:

<b>Asset Type</b>	<b>Final Market Value as at 31/3/2016 £'000</b>	<b>Percentage Change %</b>	<b>Value on Increase £'000</b>	<b>Value on Decrease £'000</b>
UK Equities				
Overseas Equities				
Total Bonds				
Other Assets				
Property				
Cash				
<b>Total Assets</b>				

\* This figure excludes derivatives and other investment balances.

\*\*This is the average variance in proportion to the value of asset type held.

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**Pension Fund Accounts**


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**c) Interest Rate Risk** is the risk the Pension Fund is exposed to from changes in interest rates and relates to its holdings in bonds and cash. Based on interest received on bonds and cash held by investment managers, a 0.5% change in interest rates would result in an approximate annualised change in income of £7k. 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 (£UK). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31<sup>st</sup> March 2016 with the previous year in brackets:

Australian Dollars	£8.9m (£9.6m)
Euro	£17.2m (£22.4m)
Hong Kong Dollars	£4.2m (£4.9m)
US Dollars	£70.3m (£127m)

The remaining exposures arise from smaller investments relating to other currencies such as the Singapore Dollar and New Zealand Dollar.

**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, the latter are "over the counter" agreements, which neither the purchaser or 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 2016, there were no derivative contracts held. 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 xxx This volatility is applied to the fund's overseas assets as follows:

Asset Type	Asset Value @ 31/3/2016 £'000	% Change	Value on Increase £'000	% Change	Value on Decrease £'000
Overseas Equities					
Other Assets					
Other Alternatives					
<b>Total</b>					

**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

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**Pension Fund Accounts**


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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 of 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.

The Financing Fund (M&G) is also exposed to credit risk. The fund gains exposure by investing in private placements. This risk is managed by the manager assigning a credit analyst to all investments, who continually monitors the asset, its direct peers and its sector.

### 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 2016 these assets totalled approximately £870.9m, with a further £40.7m held in cash by the custodian on behalf of the Fund and fund managers.

#### **6. INVESTMENT MANAGEMENT FEES**

	<b>2015/16 £'000</b>	<b>2014/15 £'000</b>
Fund Managers' Fees	1,226	1,351
Custodian Fees	40	38
Advisory/Actuarial Costs	117	54
	<b>1,383</b>	<b>1,443</b>

#### **7. PRIOR YEAR ADJUSTMENT**

No prior year adjustments have been made to these accounts.

## Pension Fund Accounts

**8. DERIVATIVE CONTRACTS**

As at 31 March 2014, there were no foreign exchange contracts held.

<b>Asset Type</b>	<b>31<sup>st</sup> March 2016</b>	<b>31<sup>st</sup> March 2015</b>
Foreign Exchange Gains		
Total Gains	0	0
Foreign Exchange Losses		
Total Losses	0	0
<b>Total Unrealised Gains/(Losses)</b>	<b>0</b>	<b>0</b>

**9. DEBTORS & CREDITORS**

These comprise the following amounts:

<b>Debtors</b>	<b>2015/16 £'000</b>	<b>2014/15 £'000</b>
Contributions due from Admitted / Scheduled Employers	787	1,031
Contributions due from Admitted / Scheduled Employees	166	160
Equity Dividends / Income from Managed Funds		
Interest and Other Income		387
LB Lewisham	0	
Tax Refunds	21	35
Pending Trades	0	
	<b>974</b>	<b>1,613</b>
<b>Creditors</b>	<b>2015/16 £'000</b>	<b>2014/15 £'000</b>
Fund Manager and Custody Fees	(171)	(243)
Consultancy / Advisory Fees	(43)	(56)
Pension Payments Due to Employees	0	(374)
Pending Trades	0	0
LB Lewisham	(639)	(4,067)
	<b>(853)</b>	<b>(4,740)</b>

The pending trades relate to purchases and sales by managers which have yet to be the subject of cash settlement. Pending trade sales and purchases at the year end are treated as investment debtors and creditors.

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**Pension Fund Accounts**


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**10. 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<sup>st</sup> March 2016 was £40.7m (£23.7m as at 31<sup>st</sup> March 2015). Approximately £24m was held from de-investment in Investec, £7m of the cash held was from Harbourvest, £7.0m from M&G, £1.0m of cash held was from Schroder. Approximately £0.9m was being held on behalf of the other managers.

**Pension Fund Bank Account**

The Lewisham cash balance represents uninvested cash held in the Pension Fund bank account as at 31<sup>st</sup> March 2016.

**11. TRANSACTION COSTS**

The following direct costs were incurred in relation to individual investment transactions:

	2015/16 £'000	2014/15 £'000
Total Purchases	7	0
Total Sales	1	0
<b>Total transactions</b>	<b>8</b>	<b>0</b>

**12. POST YEAR END EVENTS**

There were no post year end events to report. However the Fund is completing the procurement of a new multi-asset mandate to replace the disinvestment in Commodities (Investec) in 2015.

**13. COMMITMENTS**

The Pension Fund was committed to the following capital contributions as at the 31<sup>st</sup> December 2015

**Harbourvest**

<b>Fund</b>	<b>Amount '000</b>	<b>Translated £'000</b>
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$285	195
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$1,655	1,131
HarbourVest Partners X AIF L.P.	\$29,160	19,919
HIPEP VII (AIF) Partnership Fund L.P.	\$25,350	17,317
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€180	143
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€1,050	831
<b>Total</b>		<b>39,536</b>

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**Pension Fund Accounts**

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The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31<sup>st</sup> March 2016. This compares to the total Harbourvest commitments at 31<sup>st</sup> March 2015 £2.9m.

#### **14. 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 minuted at the meeting.

During the year the following declarations were made:

- Councillor John Muldoon declared personal interests as a holder of preserved benefits in the Lewisham scheme which elected members had been able to join until May 2014 and as an independently selected substitute member on the Shadow Advisory Board of the LGPS scheme nationally.
- Councillor Muldoon declared a personal interest as a member of the Local Government Pensions Scheme Shadow Advisory Board.

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 2016.

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

- a) Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £586k (see 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.
- b) The salary of the Executive Director for Resources and Regeneration is disclosed in the Council's full set of accounts.

#### **15. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)**

Contributing members have the right to make AVCs to enhance their pension. There are currently 41 '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(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

## Pension Fund Accounts

	<b>Total</b>	<b>Equitable</b>	<b>Clerical Medical</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2015/16</b>			
<b>Value at 1 April 2015</b>	1,631	472	1,159
Contributions and Transfers Received	163	4	159
Investment Return	6	12	(6)
Paid Out	(566)	(46)	(520)
<b>Value at 31 March 2015</b>	<b>1,234</b>	<b>442</b>	<b>792</b>

\*estimate

	<b>Total</b>	<b>Equitable</b>	<b>Clerical Medical</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>2014/15</b>			
<b>Value at 1 April 2015</b>	1,570	496	1,074
Contributions and Transfers Received	330	4	324
Investment Return	151	18	134
Paid Out	(420)	(46)	(373)
<b>Value at 31 March 2015</b>	<b>1,631</b>	<b>472</b>	<b>1,159</b>

**16. SCHEDULED BODIES**

The following are scheduled bodies to the fund as at 31<sup>st</sup> March 2016:

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

**17. ADMITTED BODIES**

The following are admitted bodies to the fund as at 31<sup>st</sup> March 2016:

NSL (formerly known as National Car Parks Ltd)
Excalibur Tenant Management Co-operative Ltd
PLUS (Ceased December 2015)
Housing 21
Lewisham Nexus Services
Wide Horizons
Phoenix
INSPACE
T Brown & Sons (Ceased June 2015)
Quality Heating
Blenheim CDP
Crime Reduction Initiatives (CRI)
Skanska
One Housing
Fusions Leisure Management
3 C's Support

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**Pension Fund Accounts**


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Pre-School Learning Alliance
Chequers Contract Services – Lee Manor
Tower Services
Blenheim
Chartwells
Lifeline (Ceased October 2015)

**18. STOCK LENDING**

The Statement of Investment Principles permits 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 Fund actively lends in 50 different equity and fixed income markets worldwide. Northern Trust conducts this activity on behalf of the Fund.

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<sup>st</sup> March 2016, the value of aggregate stock on loan was £5.5m (£1.9m as at 31<sup>st</sup> March 2015). These have been carried in the accounts at this value. There are no liabilities associated with these assets.

**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 £109k net of direct expenses (compared to £100k in 2014/15). The value of collateral held as at 31 March 2016 was £6.2m (£2.1m as at 31<sup>st</sup> March 2015).

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**Pension Fund Accounts**


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**19. MEMBERSHIP**

	<b>Active Members 2015/16</b>	<b>Active Members 2014/15</b>	<b>Deferred Benefits 2015/16</b>	<b>Deferred Benefits 2014/15</b>	<b>Retired Former Members 2015/16</b>	<b>Retired Former Members 2014/15</b>
<b>Admin. Authority</b>	6,049	6,147	9,045	8,370	6,939	6,805
<b>Scheduled Bodies</b>	892	855	668	588	202	180
<b>Admitted Bodies</b>	104	140	115	103	84	65
<b>Totals</b>	<b>7,045</b>	<b>7,142</b>	<b>9,828</b>	<b>9,061</b>	<b>7,225</b>	<b>7,050</b>

20. These accounts were authorised on the XX XXX 2016 by the Executive Director for Resources and Regeneration.

# Agenda Item 7

Committee	<b>Audit Panel</b>		Item No.	<b>7</b>
Report Title	<b>Head of Corporate Resource's Annual Assurance Report for 2015/16</b>			
Contributors	<b>Head of Corporate Resources</b>			
Class	<b>Information</b>	Date	<b>8 June 2016</b>	

## 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 2015/16.

## 3. Executive summary

### Background

- 3.1. This is a statutory report to be made annually by the Council's Head of Internal Audit.

### Introduction

- 3.2. The 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 2015/16 is Limited (this is down from Satisfactory in 2014/15). The Schools opinion remains Satisfactory.

### Qualifications to the opinion

- 3.4. Sets out the circumstances to help place this opinion in the appropriate context. There are two qualifications to the opinion, the higher than usual number of changes to the Internal Audit plan and some weaknesses in Risk Management practices through the year.

### Summary of work assurance work completed which the opinion is derived

- 3.5. The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).

- 3.6. In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.
- 3.7. In addition, there were 16 corporate and two school follow-up reviews completed for the period.

#### Issues relating to the Annual Governance Statement

- 3.8. One of the three improvement areas noted in the AGS is in respect of internal control. From the internal audit recommendations in 2015/16 the common or more significant areas noted for improvement were: Budget Pressures; ICT Infrastructure; Contract Management; Human Capital; and Financial Control.

#### Statement of compliance with the PSIAS

- 3.9. The independent external review conducted in February 2016 confirmed that the Internal Audit Service complies with the Public Sector Internal Audit Standards.

#### Quality Improvement Programme for Internal Audit

- 3.10. The focus for 2016/17 is to embed the newly recruited internal audit team to deliver a value for money service, maintain quality, and improve the service impact with better knowledge and understanding of the Council's operations.

## **4. Background**

- 4.1. 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".
- 4.2. 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 2015 to May 2016. This opinion and report contributes to the Council's Annual Government Statement (AGS).
- 4.3. The Council's Head of Internal Audit is the Head of Corporate Resources who has operational responsibility for the in-house Anti-Fraud and Corruption Team (A-FACT), Insurance and Risk Management, Corporate Health & Safety, Procurement Support, Strategic Finance, Pension Fund, and Treasury Management. He is also the Deputy Section 151 Officer.

## **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 2015/16. 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".
- 6.3. 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. The opinion for the 2015/16 corporate audits continues the direction of travel noted in 2014/15 and is down from last year's Satisfactory opinion.
- 6.4. I was part of the Annual Governance Statement (AGS) working party through 2015/16. The working party comprises a group of senior officers, chaired by the Head of Law, responsible for preparing and reviewing the Council's AGS.
- 6.5. The AGS has been updated and actions mentioned 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. Work continues to stabilise and improve the Internal Audit Service to deliver value for money for the Council. The plan for 2015/16 was mainly delivered by contractors; via the London Borough of Croydon framework with Mazars for corporate audits; and a service level agreement with the Royal Borough of Greenwich for school audits.
- 7.2. These arrangements have put a cost pressure on delivery of the plan. This, combined with reorganisations and the state of continuous change for a number of key services across the Council, has made the audit planning more difficult. And resulted in several changes to the plan and more audits than usual being cancelled or deferred than usual through the year.
- 7.3. For example; when it was announced that Children's Services were to be inspected by OFSTED a number of planned audits in this area were deferred to avoid duplication; and pending the move to the new IT shared service with

Brent limited IT audits were undertaken as the results for 2015/16 were already known based on 2014/15 work.

### Risk Management

- 7.4. There was an audit of Risk Management during 2015/16, which resulted in a satisfactory opinion for the process. However, as noted by the Internal Control Board (ICB); there were some weaknesses and delays through the year in management's updating of risk registers, completing service plans and undertaking appraisals with staff. Work is underway to address these challenges with a new 360 degree appraisal process for senior managers introduced for 2015/16 and a refreshed corporate focus on setting, communicating and monitoring objectives for 2016/17.
- 7.5. The risk of not being able to fully rely on the service plan objectives and risk register assessments is that internal audit reviews may not be directed where most needed and of most potential value to the Council.
- 7.6. The mitigation actions in 2015/16 have included; having the Head of Corporate Resources involved in a range of senior management functions so aware of the strategic direction for the Council; planning meetings with Heads of Services; monitoring sector and professional horizon-scanning reports; experienced auditor knowledge; reviewing committee reports; and keeping up to date with events / legislation that affect Local Government.

## **8. Summary of assurance work from which opinion is derived**

### Delivery of the Audit Plan

- 8.1. The internal audit plan 2015/16 initially had 85 pieces of audit work (59 Corporate and 26 Schools), not including follow-up reviews. By the end of the year this had decreased to 71 pieces of work (45 Corporate and 26 Schools).
- 8.2. The changes to the plan during the year were as follows:
- 8.3. Additional Audits - New
  - Arrangement for 18+ Children in Care – Requested by Head of Service
  - Processes for Payment to Main Providers
  - Troubled Families Claim (Last one of Phase 1)
  - Section 47 Referrals and Data Quality (see also cancelled / deferred)
- 8.4. Additional Audits – Split
  - COM / CYP Contract Management Audits split from two to four audits
    - Learning and Disability Respite
    - Employer Agents – Pupil Placements
    - Speech Language and Therapy
    - Domiciliary Care Agencies
  - Data Protection Act / Freedom of Information Act (DPA / FOIA) - split into two
    - Data Protection Act Compliance
    - Public Access to Information

## 8.5. Cancelled / Deferred

- Audits cancelled due to internal audit resources
  - Archiving
  - Cultural Change and Managing Resistance
  - Dedicated Transformation Team / Lewisham Future Board
  - Monitoring of ad-hoc payments to children in care and providers (non-key controls)
  - Multi Agency Partnership Working
  - Private Sector Housing Agency (PHSA)
  - Procurement Process and Contract Register
  - Safeguarding Board – CYP – Serious Case Review Framework
  - Safeguarding and Assurance Adults – Proactive monitoring of referrals
  - Savings Proposals v's Results
  - School Policies – Thematic Review
  - School Improvement Inspections Reports
  - Special Educational Needs (SEN) Service – Post reorganisation
  - The Care Act 2014 – Changes to Strategy and Processes
  - Voluntary and Community Sector Contracts
- Audits no longer required
  - Anti-Social Behaviour Service (no longer a single service)
  - Troubled Families Programme – Annual Grant Framework no longer a requirement to perform an annual audit.
- IT Audits – Cancelled due to timing and contractor resources
  - Mobile / Home Working Access
  - Monitoring of Breaches, Spam Mail, Malware and Denial of Service Attacks
  - Public Sector Network Compliance (PSN)
- Section 47 Referrals and Data Quality – cancelled from the 15/16 audit plan as key staff not available.

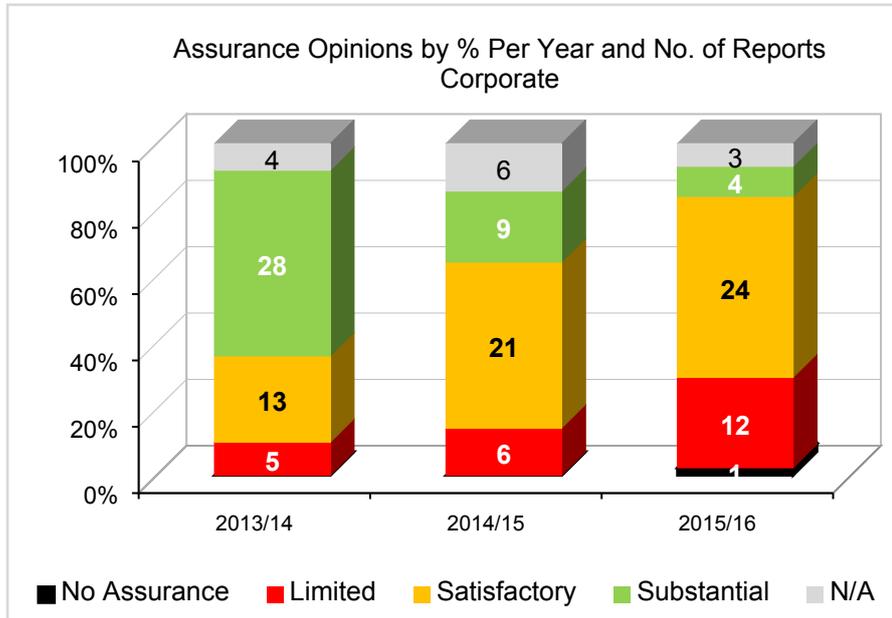
8.6. The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for corporate audits issued. The definitions of assurance opinions – Substantial, Satisfactory, Limited and No Assurance – can be found at Appendix 4. N/A is for non-assurance work such as grants or consultancy reviews.

8.7. While some work is still at draft report stage, with the exception of one corporate audit, all audit assurance opinions are reported and have therefore been considered in preparing this report. It is not expected that on completion of the final audits that there will be any material changes to impact the assurance opinion as presented.

8.8. The results of the corporate internal audit work for 2015/16 has seen the number and proportion of Limited assurance reports issued continue to increase. This is in line with the previous Head of Audit assurance opinion,

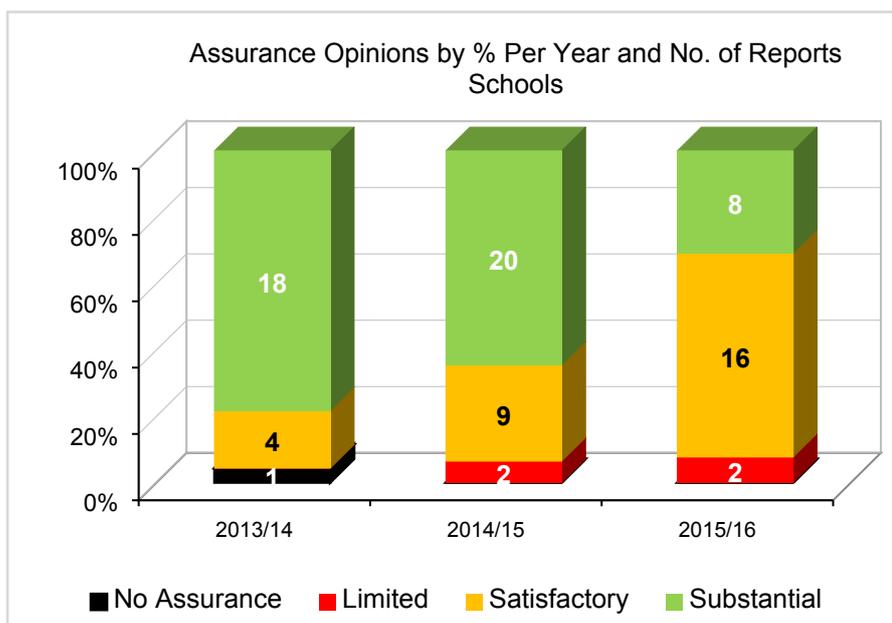
which stated last year overall opinion was satisfactory, and heading towards a Limited opinion.

- 8.9. In respect of the corporate audits 13 of the 41 reports issued (32%) were with a negative opinion; split core 5 of 17 (29%) and non-core 8 of 24 (33%). The schools audits were 2 of 26 reports (8%) with a negative opinion.



- 8.10. The graph below is the same as the above, but presents the school audit position.

- 8.11. The number of Limited / No Assurance school reports remain low. The number and percentage of satisfactory assurance reports issued has increased since last year, but this is still a positive overall assurance position.



## Core Financial Systems

- 8.12. Core financial systems are the key financial areas within the council. They are audited on an annual basis. The table below shows a comparison of assurance opinions for the last three years.

### Key

<b>SUB</b>	Substantial	<b>SAT</b>	Satisfactory	<b>LTD</b>	Limited	<b>NAS</b>	No Assurance
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	Improved since last year		Same as previous year		Deteriorated since last year
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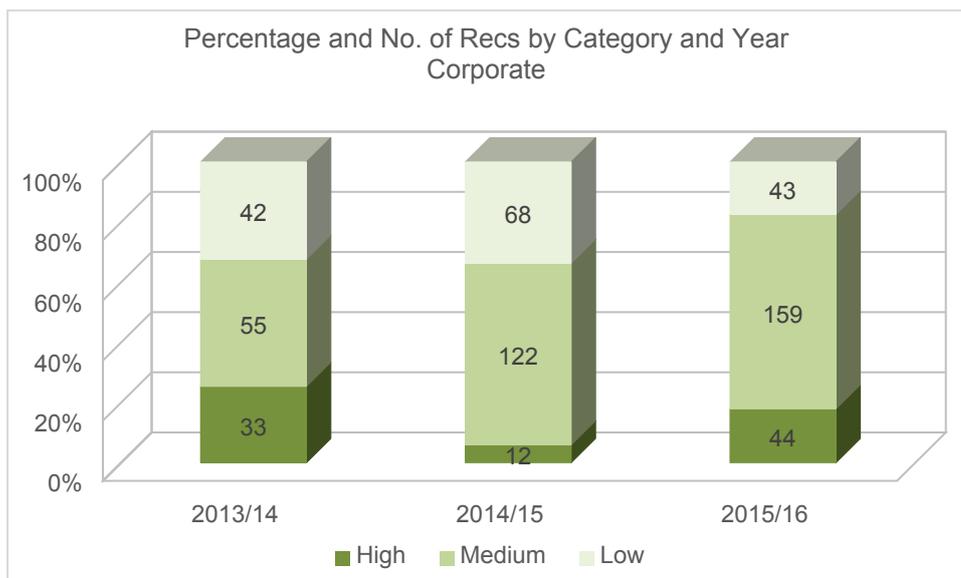
### Table

Core financial system	2013/14	2014/15	2015/16	DoT
1. Accounts payable	SUB	LTD	NAS	Draft
2. Accounts receivable	SUB	LTD	LTD	
3. Banking	SUB	LTD	LTD	
4. Client contributions for residential & domiciliary care	SUB	LTD	LTD	
5. Payments to Adult care providers	SUB	SAT	LTD	Draft
6. Main accounting	SUB	SAT	SAT	
7. Capital programme and expenditure	SUB	SAT	SAT	
8. Budget control and monitoring	SUB	SAT	SAT	
9. Business rates (NNDR)	SUB	SUB	SAT	
10. Council tax	SUB	SUB	SAT	
11. Direct payments	SUB	LTD	SAT	Draft
12. Housing benefit and CTRS	SUB	SAT	SAT	
13. Looked after children payments	SUB	SAT	SAT	Draft
14. Non-current (fixed) assets	LTD	LTD	SAT	Draft
15. Pensions	SUB	SAT	SAT	
16. Payroll	SAT	SAT	SUB	
17. Treasury management	SUB	SUB	SUB	

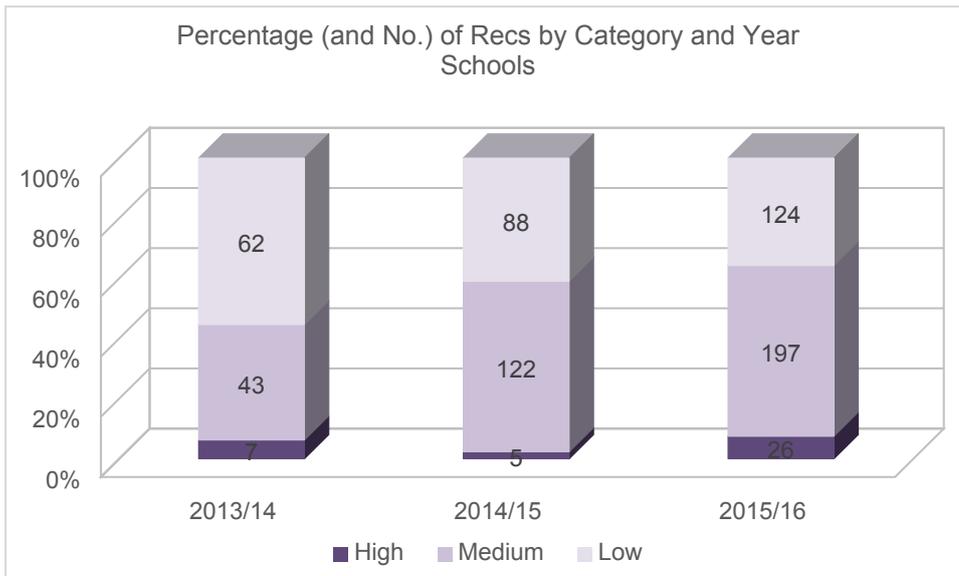
- 8.13. The 'No Assurance' audit opinion for a core financial audit is still at draft, and maybe subject to change.
- 8.14. There were five rather than six core financial audits with Negative audit opinions in 2015/16. However, these include the key core financial areas (Accounts Payable, Accounts Receivable and Banking) with negative opinions for the second year in a row.

Recommendations

- 8.15. When internal audit make recommendations to management, they are categorised as 'High', 'Medium' or 'Low'. Definitions of these categories are provided at Appendix 4.
- 8.16. Officers are responsible for updating the progress on implementation of their Corporate High and Medium recommendations to an internal SharePoint site.
- 8.17. Schools are unable to use this internal site and have to provide updates manually to the Children and Young People (CYP) directorate.
- 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 with two or more changes of due date;
  - No. of recommendations reopened at the follow-up review; and
  - No. of recommendations closed since the final report.
- 8.19. The graph below presents the percentage (and number) of recommendations made by category for all corporate internal audits (including drafts). It shows that there is an increase in percentage of High and Medium recommendations made during 2015/16.



- 8.20. The graph below is the same as the above, but for schools. This shows that percentage has remained pretty even for the last two years.



### Follow-ups

- 8.21. Internal audit follow-up on all Corporate High and Medium recommendations, normally nine months after the final report. The exceptions to this are for the core financial reviews, which are reviewed at the next annual audit.
- 8.22. For schools, only those audits with a Limited or No Assurance opinion are followed-up. There were 16 corporate and two school follow-up reviews completed for the period.
- 8.23. The table below shows the number of recommendations reviewed and their status at the time of the follow-up review.

Implemented	In Progress	Superseded	Not Implemented	Total Recs
64	29	-	8	<b>101</b>
63%	29%	-	8%	<b>%</b>

- 8.24. Internal Audit reports the progress of implementing these recommendations to the Audit Panel and the Internal Control Board (ICB) on a regular basis. A list of follow-up reviews conducted can be found in Appendix 2.

### Anti-Fraud and Corruption Team (AFACT)

- 8.25. 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.
- 8.26. 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.

- 8.27. The number and nature of investigations concluded in the year and actions taken are reported to the ICB and Audit Panel quarterly in the year. In 2015/16 the Council was also independently inspected and was given a positive opinion for its arrangements for conducting surveillance work under the RIPA powers.

#### Risk Management

- 8.28. Corporate Resources is responsible for ensuring the Council has an effective risk management strategy and policy in place. These were reviewed at ICB in 2015/16 in light of some of the challenges to maintaining risk registers reported by the Risk Management Working Party (RMWP). 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.
- 8.29. A more streamlined and structured approach was agreed for service plans and Directorate registers for which templates have been designed for use in 2016/17. The strategy and policy documents will now be updated to reflect these changes and put to ICB and Audit Panel for member approval in 2016/17.
- 8.30. In addition to the risk registers for management purposes, the Mayor and Cabinet and Members are appraised on risk management via the monthly management report which clearly maps risks to the Council's priorities and provides a narrative on changes to existing or emerging key risks.
- 8.31. Through the actions note 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. In addition to the internal audit of the risk management process in 2015/16 a risk management maturity audit is in the plan for 2016/17 to assess the new arrangements.

#### Other sources of assurance

- 8.32. 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:
- 8.33. Internally service planning, performance reporting and financial monitoring are tools available to management. In 2015/16, as noted by ICB, the approach to service planning was not consistent across services, budget monitoring had some re-occurring audit recommendations and the CYP OFSTED inspection made recommendations in respect of performance management. In addition the level of H&S incidents reported and motor vehicle insurance claims have been higher than usual. These are all areas for management attention and improvement going forward.
- 8.34. Externally inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of

service practice and performance. In 2015/16, from the relevant bodies, the Council received positive results from its legal services accreditation, RIPA inspection, and an extension to its Public Sector Network certificate. However, the OFSTED review of children's services concluded with 'needs improvement', the Council chose to allow its Investors in People accreditation to lapse, and performance around timely Freedom of Information and handling of complaints fell off considerably at the turn of the year (although now returning to be back on track).

## **9. Issues relevant to the Annual Governance Statement (AGS)**

- 9.1. From a review of the internal audit recommendations made in 2015/16 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 Pressures

- 9.2. Across the Council, services are continuing to work to find ways of operating with reduced budgets. This has resulted in controls being either:
- reduced, e.g. checks being done quarterly rather than monthly;
  - transferred e.g. contracted out but with insufficient contract monitoring over finances or outputs/outcomes; or
  - non-compliance e.g. purchasing without obtaining correct quotes / tendering.

### ICT Infrastructure

- 9.3. The ICT infrastructure during 2015/16 was not always fit for purpose. This resulted in:
- Software applications suffering considerable downtime;
  - Inability to reconfigure or procure digital ways of working to help with control improvements or efficiencies;
  - Antivirus / cyber security not up to date or not in place thereby putting the Council at risk from outside threats; or
  - ICT kit not being refreshed and therefore operating very slowly resulting in considerable loss of productivity.

### Contract Management

- 9.4. The Council does not always prioritise the resources to ensure effective contract management arrangements are in place and value for money is being achieved. While the contracting out services may appear to be a budget / cost saving decision, without proper monitoring of the contract and retained risks it can end up being more costly in the long run.

### Human Capital

- 9.5. The Council in 2015/16 completed its third voluntary severance scheme in five years and continues to implement a high number of service reorganisations associated with savings proposals. This continues to throw up gaps in the effective operation of controls where key experienced and knowledgeable members of staff leave.

- 9.6. This situation is exacerbated where internal audit is routinely identifying procedures and processes not being updated to reflect new ways of working and to help the transfer of knowledge and learning.

#### Financial control

- 9.7. From a core financial perspective, Accounts Payable and Accounts Receivable are the main transaction areas and impact all parts of the Council operating efficiently.
- Accounts Receivable – findings included the suspense account not cleared in a timely manner. Officers are able to raise and cancel invoices without a segregation of duties control. There is no automatic notification of breaks in instalments and the removal of reminder letters (dunning process) is not monitored to ensure prompt collection of debts.
  - Accounts Payable – findings included changes to suppliers are not being reviewed or there is no audit trail to identify what changes have been made. There is no dual control in the changes to supplier details. Exception reports on duplicate payments or high value payments are not run. There is not always approval for payment evidenced from a feeder system or manual payments. Some payments where there should be a purchase order are being processed as non-purchase orders (i.e. not shown as a commitment to spend). Delays in paying suppliers (i.e. over the 30 days threshold). Absence of routine data cleansing work, e.g. to review for duplicate suppliers.
- 9.8. The key risks being uncollected income or payment of monies not due, abuse of public funds, poor decision making based on weak budget forecasting and monitoring information, and reputational harm with suppliers and customers.

### **10. Statement of compliance with Public Sector Internal Audit Standards (PSIAS)**

- 10.1. The standards require an external independent review of the internal audit service at least every five years. The internal audit service's external review took place in February 2016 by NHS Bart's internal audit service, London Audit Consortium (LAC).
- 10.2. LAC confirmed that the Internal Audit Service complied with the PSIAS. Recommendations made by LAC were made on how to improve the service, but the implementation of these are not mandatory to comply with the PSIAS. The detailed recommendations and proposed actions in response are set out at Appendix 3 to this report.
- 10.3. The recommendations, where relevant, are also included in the Quality Improvement Plan (Section 11).

### **11. Quality improvement Plan (QIP) for Internal Audit.**

- 11.1. Taking the recommendations made during the PSIAS assessment into account, the Internal Audit Service is pressing ahead with a restructure to recruit more in-house resource. This is partly a cost saving measure and a

means to ensure better retained organisational knowledge to help support and contribute to the on-going change being driven through by management.

- 11.2. The emphasis for 2016/17 is to embed the team, updated working papers, and set revised key performance indicators before considering introducing trainee positions in 2017/18.

## **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” state 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; and
- 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](mailto:david.austin@lewisham.gov.uk)

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

**Corporate Audits**

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CUS	Accounts Payable 2015/16 (Core Financial Audit)	No Assurance	6	4	-	Set up of new suppliers, Payments, Reconciliations, and Performance Indicators	Draft
CUS	Accounts Receivable 15-16 (Core Financial Audit)	Limited	2	4	1	Completeness of income, Documentation and Authorisation, Income recording and Debt Recovery	15/01/16
CUS	Banking 15/16 (Core Financial Audit)	Limited	1	3	1	Payments, Cheque Printing and Security, Feeder systems (access) and Reconciliations	07/03/16
CUS	Client Contributions for Care Provision 15/16 (Core Financial Audit)	Limited	2	8	1	Eligibility and Financial Assessments, Recovery of Client contributions and Deferred Contribution Scheme	01/04/16
CUS	Backup and BCP for Adult Social Care System	Limited	2	1	-	Backups and Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP)	04/04/16
COM	Learning and Disability Respite – Contract Management	Limited	-	8	-	Contract and Contract Variations, Payments, Contract Monitoring and Management Reporting.	14/03/16
CYP	Children’s Centres – Contract Management	Limited	1	5	2	Contract and Contact Variation, Payments, Monitoring and Reporting	14/04/16
RRE	Commissioning and Procurement Board	Limited	1	6	-	Governance, Reporting, Monitoring and Adherence to the OGC gateway process,	04/05/16
RRE	Adherence to the Local Transparency code 2014	Limited	1	2	-	Publishing and Verification of Data	03/05/16
COM	Public Health – Statutory Services	Limited	2	4	-	Contract Formalities, Budgetary Control, Management Information and Reporting	Draft
COM	Better Care Fund	Limited	-	10	1	Governance and Risk Management, Performance Management and Data Quality, Financial Structure	27/05/16

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
COM	Payment to Adult Care Providers (Core Financial Audit)	Limited	-	10	2	DPA and Statutory Requirements, Set up of provider payments, Payments, Budgetary Control	27/05/16
CUS	Housing – Bed and Breakfast, Hostels and Temporary Accommodation	Limited	1	5	1	Allocation of temporary Accommodation, Charging and collection of rents and rates, Payments to Landlords	Draft
RRE	Budget Monitoring 15/16 (Core Financial Audit)	Satisfactory	-	3	1	Budget Setting, Loading and Virements, Budgetary Controls, and Management Reporting	01/03/16
CUS	Business Rates (NDR) 15/16 (Core Financial Audit)	Satisfactory	1	-	2	Setting of the Business rates, Billing, Liabilities, Discounts, Reliefs and Collection Recovery and Enforcement	07/03/16
RRE	Capital Expenditure 15/16 (Core Financial Audit)	Satisfactory	-	1	-	Project Governance and Management, Payments, and Programme Budget and Expenditure Monitoring	22/03/16
CUS	Council Tax 15/16 (Core Financial Audit)	Satisfactory	1	-	2	Setting of the Council Tax, Billing inc, Write offs, Refunds, Discounts, Reductions, Disregards and Liabilities, Valuation Office List and Data Protection	07/03/16
CUS	Housing Benefit and Council Tax Reduction Scheme (Core Financial Audit)	Satisfactory	-	4	2	Applications, Payments, Overpayment, Debt Recovery, System Reconciliation and Exception Reporting	21/04/16
RRE	Main Accounting (Core Financial Audit)	Satisfactory	-	2	3	Financial Systems Administration, Feeder Systems, Journals and Reconciliations and Final Accounts	16/02/16
RRE	Non-Current Assets 15/16 (Core Financial Audit)	Satisfactory	-	2	2	Asset Management, Transfer of assets, and Reconciliation	25/04/16
COM	Direct Payments 15/16 (Core Financial Audit)	Satisfactory	-	4	1	Assessment and Payments, Utilisation Monitoring, and Budget Monitoring	24/05/16

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CYP	Payments to Child Care Providers and Foster Carers (Core Financial Audit)	Satisfactory	1	5	1	Payments, Budgetary Control, Exception Reporting	Draft
RRE	Pensions 15/16 (Core Financial Audit)	Satisfactory	-	4	-	Governance Arrangements, Contributions and Payables, Investments and Management Fees and Reconciliation	01/04/16
RRE	Corporate Health and Safety Framework	Satisfactory	-	4	5	Training and Communication, Risk Mapping, Audits and Inspections and Management Reporting	23/09/16
RRE	Risk Management	Satisfactory	-	3	1	Risk Identification and Evaluation Process, and Risk Monitoring and Management Reporting	17/02/16
CUS	Housing Register and Offers	Satisfactory	1	2	1	Housing applications, Bidding process and Offers	11/04/16
CUS	Recycling and Incineration Arrangements – Contract Monitoring	Satisfactory	-	3	1	Contract and Contact Variation, Payments, Monitoring and Reporting	10/11/15
CUS	Registrars	Satisfactory	-	3	1	Income and Reconciliations, Stock Control, Performance Monitoring and Customer Satisfaction	16/10/15
COM	Domiciliary Care Agencies – Contract Monitoring	Satisfactory	-	5	1	Contract and Contact Variation, Payments, Monitoring and Reporting	22/02/16
CUS	Public Access to Information (inc Freedom of Information)	Satisfactory	-	7	1	FOIA / EIR requirements and ICO recommendations, Access to information and exemptions and ICO codes of practice	04/05/16
CUS	Data Protection Act – Compliance	Satisfactory	-	6	-	DPA and ICO recommendations and DPA requests	04/05/16
CYP	Leaving Care (18+ Arrangements)	Satisfactory	1	3	1	Assessment of Needs and Pathway plan, placement for housing, Monitoring of aftercare support	Draft
CYP	Employer Agents- Pupils Places Programme – Contract Monitoring	Satisfactory	1	4	2	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
RRE	Payroll 15/16 (Core Financial Audit)	Substantial	-	1	1	Starters and Leavers, Benefits, Deductions, Amendments and Payments	11/04/16

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
RRE	Treasury Management 15/16 <b>(Core Financial Audit)</b>	Substantial	-	2	-	Cash Flow Forecasting, Investments and Loans Recording, Unauthorised Access and Performance Monitoring and Reporting	09/02/16
CUS	In-house Bailiff Service / Enforcement Agency	Substantial	-	1	-	Recovery process including Seizing and Selling of Goods and Cash Payments, Transfer of Cases to External Bailiffs and Complaints Process	01/03/16
CYP	Speech and Language Therapy – Contract Management	Substantial	-	2	-	Contract and Contact Variation, Payments, Monitoring and Reporting	20/05/16
CYP	Troubled Families Programme – Claim Submissions (Phase 1 last claim)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
CYP	Troubled Families Programme – Claim Submissions (Phase 2 claims for year)	Grant	-	-	-	DCLG require internal audit to sample check the grant claim	Throughout the year
COM	Food Safety, Hygiene and Standards	Satisfactory	1	2	-	Food Safety, Hygiene and Standards arrangements, Enforcement of the Food Safety Act, Budget and Performance Reviews	27/05/16
RRE	Anti-Fraud and Corruption Team (AFACT)	Satisfactory	-	2	3	TBC	Draft
CUS	Appointeeships, Deputyships and Safeguarding of Client Assets	Satisfactory	1	3	1	Application and eligibility of appointeeships and Deputyship, income and expenditure, safeguarding of client assets	27/05/16
CUS	Disaster Recovery and Business Continuity Plans	Satisfactory	1	2	-	DR / BCP planning, BCP returns, Property Inspections, Emergency Planning Exercise	Draft
CYP	Processes for Payments to Main Care Providers	Consultancy	2	4	-	Compliance with Organisational and Management requirements, Set up and termination of commitments	Draft
RRE	PFI Monitoring	TBC	Fieldwork in progress / with DP			Contracts, Variations and Additions, Governance arrangement, Contract monitoring and report and payments	TBC

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

**School Audits**

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Watergate	Limited	1	12	10	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	11/08/15
SCH	Adamsrill School	Limited	1	15	6	As above	26/08/15
SCH	Abbey Manor College	Satisfactory	-	11	10	As above	16/09/15
SCH	Athelney Primary School	Satisfactory	-	7	1	As above	10/03/16
SCH	Bonus Pastor RC College	Satisfactory	1	8	10	As above	15/12/15
SCH	Chelwood Nursery	Satisfactory	1	12	3	As above	22/10/15
SCH	Deptford Green Secondary	Satisfactory	-	8	4	As above	15/10/15
SCH	Edmund Waller Primary	Satisfactory	1	8	-	As above	18/09/15
SCH	Forest Hill Secondary	Satisfactory	-	11	5	As above	25/02/16
SCH	Holbeach Primary	Satisfactory	-	10	1	As above	03/02/16
SCH	Kender Primary	Satisfactory	-	7	2	As above	06/07/15
SCH	Launcelot Primary	Satisfactory	-	7	4	As above	23/02/16
SCH	Our Lady and St Philip Neri RC Infant and Jnr	Satisfactory	3	9	9	As above	04/02/16

**Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2015/16**

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Trinity All Through CE Secondary	Satisfactory	2	6	2	As above	13/11/15
SCH	Sedgehill Secondary	Satisfactory	3	7	-	As above	26/04/16
SCH	Kilmorie Primary	Satisfactory	1	11	1	As above	Draft
SCH	Prendergast Hilly Fields College (Secondary)	Satisfactory	2	9	-	As above	Draft
SCH	Prendergast Ladywell Fields College (Secondary)	Satisfactory	2	8	1	As above	Draft
SCH	Addey & Stanhope Secondary	Substantial	-	2	2	As above	19/08/15
SCH	Conisborough College - (Colfe's Associated School)	Substantial	-	2	13	As above	15/10/15
SCH	Fairlawn Primary	Substantial	-	4	-	As above	02/10/15
SCH	Forster Park Primary	Substantial	-	5	10	As above	27/01/16
SCH	St Mary Magdalen's Catholic	Substantial	-	5	1	As above	02/07/15
SCH	St Michael's CE Primary	Substantial	-	4	8	As above	19/10/15
SCH	Sydenham Secondary	Substantial	-	6	7	As above	27/11/15
SCH	Prendergast Vale College (Secondary)	Substantial	-	3	1	As above	Draft

**Appendix 2 – Follow up Review Conducted in 2015/16**

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
RRE	Insurance -In house Processes 14/15	Substantial	08/06/15	19/01/16	1	1	-	-	2
RRE	Project Management 13/14	Satisfactory	16/07/15	26/02/16	-	3	-	2	5
RRE	Budget Setting and Monitoring 14/16	Satisfactory	29/04/15	01/03/16	3	3	-	-	6
RRE	Main Accounting 14/15	Satisfactory	18/06/15	16/02/16	2	1	-	-	3
RRE	Treasury Management 14/15	Substantial	11/06/15	09/02/16	1	1	-	-	2
RRE	Capital Expenditure 14/15	Satisfactory	24/06/16	22/03/16	4	1	-	-	5
RRE	Pensions 14/15	Satisfactory	31/03/16	01/04/16	7	1	-	1	9
RRE	Payroll 14/15	Satisfactory	12/05/16	11/04/16	7	1	-	-	8
RRE	Programme and Project Management 14-15	Satisfactory	29/06/15	11/04/16	3	1	-	-	4
CUS	Accounts Receivable 14/15	Limited	18/06/15	15/01/16	3	3	-	1	7
CUS	Housing Benefit and CTRS 14/15	Satisfactory	30/06/15	21/04/16	1	1	-	1	3
CUS	Banking 14/15	Limited	10/06/15	07/03/16	2	-	-	-	2
CYP	School Catering Contract 13/14	Satisfactory	09/07/14	11/02/16	4	1	-	-	5
CYP	Payments for 2 to 4 Year Olds 14/15	Substantial	24/06/15	07/03/16	-	1	-	1	2
COM	Public Health Contracts	Satisfactory	26/05/15	14/04/16	1	2	-	1	4

**Appendix 2 – Follow up Review Conducted in 2015/16**

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
COM	Client Contributions for Care Provision 14/15	Limited	30/06/15	01/04/16	2	2	-	1	5
SCH	Elfrida Primary School 2014/15	Limited	05/03/15	14/12/15	13	1	-	-	14
SCH	St Bartholomew’s CE Primary 2014/15	Limited	15/09/14	02/07/15	10	5	-	-	15

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
1. Mazars to share declarations of interest with LBL or complete LBL pro-formas	Agreed. All current contractor staff who work on a regular from 2016 on the LBL basis will complete	Internal Audit Manager	June 2016.
2. Mazars should provide details of their internal and external quality review audits that presently demonstrate compliance with their ISO9001 quality system and through this, compliance with IA standards.	Agreed. Mazars have provided evidence of the compliance with ISO9001 since the external assessment took place	Internal Audit Manager	Completed
3. Mazars should be asked to either share their gifts/ hospitality register or be required to participate in the LBL system.	Not agreed. Until Mazars procures services on our behalf, the need for a gifts and hospitality register is not required.	n/a	n/a
4. So as to improve clarity, paragraph 5.5 of the Audit Charter 2015/16, it should be reworded thus:  <i>As the HIA has line management responsibility for a number of operational activities not relating to internal audit, to safeguard audit objectivity whenever these systems are audited by the internal audit team, the IACM will operate independently of the HIA and will for these matters report directly to the CFO</i>	Agreed A review of the Charter for 2016/17 has taken place, and wording amended to reflect this recommendation.	Internal Audit Contract Manager	Completed
5. Consideration should be given to renaming the Internal Audit Contract Manager post as Operational HIA to make clearer the remit of the post. The job description could	The restructure will make the internal audit contractor manager's role redundant, therefore a new Job Description will be created and these points will be	Head of Corporate Resources	June 16

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
<p>also state:</p> <ul style="list-style-type: none"> <li>the post holder’s authority to act independently of the HIA in regard to audits of systems managed by the HIA and the reporting line directly to the CFO in such instances;</li> <li>that the IACM will deputise for the HIA in regard to internal audit matters only</li> </ul>	<p>taken into consideration.</p>		
<p>6. Consider introducing a standard paragraph into project ToRs and audit reports stating that the auditor has no conflict of interests.</p> <p>This will demonstrate that independence is considered as part of project planning. It will therefore strengthen the assurance presently made in the Audit Charter and the Annual Assurance Report that the internal audit service complies with the PSIAS (and therefore operates with appropriate independence</p>	<p>Agreed.</p> <p>A standard statement has been put into the Terms of Reference for 2016/17 audits , declaring that relating to that particular audit, they have no know impairment to their independence, will remain impartial throughout the review and have no conflict of interests to declare</p>	<p>Internal Audit Contract Manager</p>	<p>Completed.</p>
<p>7. The Audit Panel and the Internal Control Board (ICB) should consider holding in-camera meetings with the Internal Audit Contract manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is</p>	<p>Agreement to be confirmed by Audit Pane, ICB and CFO.</p> <p>HIA comment: While in principle this is a good idea, there may be an easier way to implement this.</p> <p>Audit Panel – an annual meeting / or email from the chair to the Internal Audit Contract Manager should suffice.</p> <p>ICB – TBC</p>	<p>TBC</p>	<p><b>TBC</b></p>

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
<p>undertaken.</p> <p>The CFO should provide similar support to the IA Contract Manager in regard to the audit of any system managed by the HIA</p>	<p>CFO – TBC</p>		
<p>8. The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).</p>	<p>To be agreed with the Audit Panel.</p> <p>Self-assessment of the audit panel (or committee) are available.</p>	<p>TBC</p>	<p><b>TBC</b></p>
<p>9. LBL should consider asking Mazars to periodically declare compliance with their staff appraisal and training systems (note: the need to conduct appraisals and operate training programmes for staff seem not to be in the scope of the ISO9001 system and therefore independent inspections by BSI cannot be relied upon for this purpose)</p>	<p>The Internal Audit Contract Manager will request A statement by Mazars when they complete their register of interests forms.</p>	<p>Internal Audit Manager</p>	<p>June 2016.</p>
<p>10. When submitting draft reports to the IACM Mazars should provide written confirmation that the working papers and draft report have been subject to their normal quality assurance process and all review points</p>	<p>Not agreed as felt it is an over control.</p> <p>However, the IACM will put in the protocol that this a requirement, but report to the IACM if there is a break with the protocol.</p>	<p>Internal Audit Manager</p>	<p>June 2016.</p>

Appendix 3 – Action Plan for Improvements for the Internal Audit Service

Recommendation	Action Plan	Responsible Officer	Due by
have been addressed.).			
11. Liaison with external audit should be strengthened.	<p>Agreed</p> <p>Although the HIA meets with them on a regular basis this is in relation to his other activities (i.e pensions). Discussion with External Audit will take place to see how it can be improved</p>	HIA and External Audit	June 16
12. Performance management systems are a key component of internal control. Consideration should be given to cyclically auditing the performance management arrangements of individual directorates, if an overall review is considered too large an undertaking. A risk based approach to determining the most suitable areas for review should be adopted	<p>Agreed in principal.</p> <p>The HIA and IACM will consider this during the next round of planning.</p>	Head of Audit / Internal Audit Contract Manager	<b>December 2016</b>
<p>13. ASQs are valuable in measuring the effectiveness of the service and motivating IA staff. Efforts should be made to improve the current level of client feedback by adopting the following strategies:</p> <ul style="list-style-type: none"> <li>• following up promptly where returns have not been made,</li> <li>• responding to replies very promptly to demonstrate that feedback is valued</li> </ul>	<p>Agreed</p> <p>When the in-house team is in place, this will form part of their PI.</p>	Internal Audit Contract Management	<b>September 2016</b>

**Appendix 4 – 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.

<b>High</b>	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.
<b>Medium</b>	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
<b>Low</b>	Implementation of this recommendation would enhance control or improve operational efficiency.

# Agenda Item 8

AUDIT PANEL		
Report Title	Internal Audit update report	
Key Decision	No	Item No. 8
Ward	ALL	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 8 June 2016

## 1. Purpose of the report

1.1. This report presents members of the Audit Panel with:

- Progress of the 2015/16 internal audit plan;
- Progress of implementation of internal audit recommendations;
- Final outcome of the assessment of the Public Sector Internal Audit Standards (PISAS);
- Internal Audit Charter for 2016/17; and
- Draft internal audit plan for 2016/17.

## 2. Recommendations

2.1. It is recommended that the Audit Panel:

- note the content of this report;
- approve the proposed internal audit plan for 2016/17;
- approve the Internal Audit Charter for 2016/17; and
- agree the two recommendations from the PSIAS relating to members.

## 3. Background

3.1. Internal Audit is a statutory service that provides management and members with independent assurance on the control environment within the Council.

3.2. Currently, internal audit is resourced by both external service providers, both private and public sector internal audit teams.

3.3. At the time of writing this report, the in-house team consisted of the Head of Corporate Resources (Head of Internal Audit) and the Internal Audit Contract Manager.

## 4. Executive Summary

4.1. **Internal audit progress update** - 2015/16 audit plan - There are two audits to be issued, and a further 13 to be finalised. The 2016/17 has started with pre-audit meetings taking place.

4.2. **Limited, No Assurance and Consultancy reports** - There were seven Limited audit reports issued since the last meeting. Of these, two were core financial audits, Banking (CUS) and Client Contributions for Care (COM).

- 4.3. **High or Medium recommendations not agreed** – Management have agreed all High and Medium recommendations.
- 4.4. **Progress on the implementation of recommendations** - There are 37 non-school and 84 school recommendations overdue. There were 12 follow-up audits completed in the period:
- 10 corporate – with 44/49 (90%) of recommendations either implemented or in progress; and
  - 2 schools - with 18/19 (95%) of recommendations either implemented or in progress.
- 4.5. **The Internal Audit Service** – The recruitment of three principal auditors has concluded. The internal audit service will continue to be supported by the Croydon Framework (Mazars), Royal Borough of Greenwich and independent IT auditor for 2016/17.
- 4.6. **Proposed Internal Audit plan for 2016/17** – following the inquorate Audit Panel meeting in March the draft plan is resubmitted to the Audit Panel for approval.
- 4.7. **Public Sector Internal Audit Service (PSIAS)** - the external independent service assessment has taken place and the assessor's conclusion was - the Internal Audit Service is compliant with the requirements of the PSIAS.

## 5. Internal audit progress update - 2015/16 audit plan

- 5.1. There are six corporate audits to be issued as a draft, with a further nine to be finalised. They are:

To be issued

- PFI Monitoring (RRE); and
- Leaving Care 18+ (CYP).

To be finalised:

- Direct Payments 15/16 Core – Satisfactory;
- Non-current Assets 15/16 Core – Satisfactory;
- Accounts Payable 15/16 Core – No Assurance;
- Payments to Adult Care Providers 15/16 Core – Limited;
- Public Health – statutory services and providing services to the NHS – Satisfactory;
- Better Care Fund – Limited;
- Housing – Bed & Breakfast, Hostels and Temporary Accommodation – Limited;
- Employer Agents, Pupil Payments (contract management) – Satisfactory;
- Anti-fraud and Corruption Team (AFACT) – Satisfactory;
- Disaster Recovery / BCP – Satisfactory;
- Appointeeships, Deputyships and Safeguarding of clients assets -Satisfactory;
- Speech and Language Therapy (contract management) – Substantial;
- Environmental Health – Food safety, Hygiene and Standards – Satisfactory; and
- Processes for Payments to Main Care Providers – Consultancy.

- 5.2. There are four school audits to be finalised:

- Prendergast – Hillyfields – Substantial;
- Prendergast – Ladywel – Satisfactory; I
- Prendergast – Vale College - Substantial, and

- Kilmorie – Satisfactory.

5.3. The table below details the audits issues since the last meeting, by audit opinion.

Dir.	Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
				H	M	L
RRE	Commissioning and Procurement Board	04/05/16	Limited	1	6	-
CUS	Local Transparency Code	03/05/16	Limited	1	2	-
CUS	Client Contributions for Care Provision 15-16 (Core)	01/04/16	Limited	2	8	1
CUS	Banking 15-16 (Core)	07/03/16	Limited	1	3	1
CYP	Children Centre Contracts	14/04/16	Limited	1	5	2
COM	IT Backup and BCP for Adult Social Care System	04/04/16	Limited	2	1	-
COM	Learning and Disability Respite - contract management	14/03/16	Limited	-	8	-
RRE	Pensions 15-16 (Core)	01/04/16	Satisfactory	-	4	-
RRE	Capital Expenditure 15-16 (Core)	22/03/16	Satisfactory	-	3	-
RRE	Budget Monitoring 15-16 (Core)	01/03/16	Satisfactory	-	3	1
CUS	Adherence to the DPA 1998	04/05/16	Satisfactory	-	6	-
CUS	Public Access to Information	04/05/16	Satisfactory	-	7	1
CUS	Housing Benefit and CTRS 15-16 (Core)	21/04/16	Satisfactory	-	4	2
CUS	Housing Register and Offers	11/04/16	Satisfactory	1	2	1
CUS	Council Tax 15-16 (Core)	07/03/16	Satisfactory	1	-	2
CUS	NNDR 15-16 (Core)	07/03/16	Satisfactory	1	-	2
RRE	Payroll 15-16 (Core)	11/04/16	Substantial	-	1	1
CUS	In-house Bailiff Service /Enforcement Agency	01/03/16	Substantial	-	1	-

Dir.	Audit (School)	Date of Final	Audit Opinion	Recs. Made		
SCH	Athelney Primary School 15-16	10/03/16	Satisfactory	-	7	1
SCH	Sedgehill Secondary School 15-16	26/04/16	Satisfactory	3	7	1
SCH	Forest Hill Secondary 15-16	25/02/16	Satisfactory	-	11	5

5.4. There were no additional audits since the last meeting. Due to resources and timing, two were audits were cancelled. They were:

- Voluntary and Community Sector Contracts; and
- School Thematic – Policies.

## 6. Limited , No Assurance and Consultancy reports

6.1. There were seven ‘Limited’ opinion reports issued since the last meeting:

- Commissioning and Procurement Board;
- Local Transparency Code;
- Client Contributions for Care Provision 15-16 (Core);
- Banking 15-16 (Core);
- Children Centre Contracts;
- IT Backup and BCP for Adult Social Care System; and
- Learning and Disability Respite - contract management.

6.2. While these reports are diverse in the range of activities audited, some common improvement areas relate to:

- Absence of up to date process and procedure notes;
- Lack of evidence for review / approval of transactions; and
- Lack of timely actions and monitoring.

6.3. Common to all of these is the pressure on managers and staff as the Council continues to work to maintain services with reducing resources. The executive summaries from these reports can be found at Appendix 2.

## 7. High or Medium recommendations not agreed

7.1. Since the last meeting, management have agreed all High or Medium recommendations made by internal audit prior to finalisation.

## 8. Progress on the implementation of recommendations.

### Follow-ups

8.1. Non-school reviews with High or Medium recommendations are followed-up within nine months of the final report. School audits with a negative assurance opinion (i.e. ‘Limited’ or ‘No assurance’) also receive a follow-up review.

8.2. There were 12 follow up reviews completed since the last report, 10 corporate and two school. The results were:

Implemented	In Progress	Superseded	Not Implemented	Total Recs
42	20	-	6	68
62%	29%	-	9%	100%

8.3. Over 90% of recommendations were either implemented in full or were in progress. Details of the follow-up review can be found in Appendix 3.

### Re-occurring recommendations

8.4. Where a recommendation for a core financial review is remade the, this is reported as a re-occurring recommendation. The previous year's recommendation is closed down, and the new recommendation (the re-occurring recommendation) is then monitored.

8.5. Below are the 12 re-occurring recommendations that have been identified since the last meeting.

- Banking - 1 rec - since 2014/15
  - Procedure notes for all areas need to be created
- Treasury Management - 1 rec - since 2013/14
  - Reconciliation of deposits, market loans and Public Work Loan Board Loans not being reviewed by independent officer.
- Budget Setting - 3 rec - since 2012/13
  - Approvals of budget movements (i.e. carry forwards) should be defined in finance procedures and approval should be documented and kept.
  - Budget holders not always signing their budget monitoring reports as correct.
  - Budget variances (£5k or 1% of the budget whichever is greater) are not being consistently recorded in the budget control reports.
- Capital Expenditure - 1 rec - since 2014/15
  - Monthly progress reports (Highlight reports) are not consistently completed
- Client Contributions for Care Provision - 3 recs - since 2014/15
  - Initial and reassessments are not completed in a timely manor
  - Consent from clients to share personal information not formally applied for
  - Scanning of client files (including backlog) for DPA security purposes not completed.
- Payroll - 1 rec - since 2014/15
  - PAYE and NI reconciliations not being independently checked.
- Pensions - 2 recs - since 2014/15
  - Scanning of documents for electronic records still not resolved.
  - Reconciliations between Pension contributions received and payroll and the general ledger are not regularly conducted and not independently check and verified.

8.6. Superseded

No recommendations were superseded since the last report.

Implementation of recommendations

8.7. The table below shows the status of high and medium recommendations made by Internal Audit as at the 13/05/16.

Lead Dir.	Previous o/due recs.	Current o/due recs at 13/05/16	Current recs with 2+ changes	Previous no. of open recs at 29/02/16	Recs re-opened since 29/02/16	New recs since 29/02/16	Rec closed since 29/02/16	Current open recs at 13/05/16
<b>RRE</b>	10	7	3	<b>16</b>	7	24	(19)	<b>28</b>
<b>CUS</b>	-	9	7	<b>26</b>	-	42	(8)	<b>60</b>
<b>COM</b>	4	14	-	<b>7</b>	3	13	(6)	<b>17</b>

Lead Dir.	Previous o/due recs.	Current o/due recs at 13/05/16	Current recs with 2+ changes	Previous no. of open recs at 29/02/16	Recs re-opened since 29/02/16	New recs since 29/02/16	Rec closed since 29/02/16	Current open recs at 13/05/16
<b>CYP</b>	3	7	-	<b>9</b>	-	6	(2)	<b>13</b>
<b>Tot</b>	<b>17</b>	<b>37</b>	<b>10</b>	<b>58</b>	<b>10</b>	<b>85</b>	<b>(35)</b>	<b>118</b>
<b>SCH</b>	<b>77</b>	<b>84</b>	<b>3</b>	<b>113</b>	6	24	(27)	<b>116</b>
<b>Tot</b>	<b>94</b>	<b>121</b>	<b>13</b>	<b>171</b>	<b>16</b>	<b>109</b>	<b>(62)</b>	<b>234</b>

8.8. The percentage of overdue recommendations to open ones for all areas is 52%. This is broken down by:

- Corporate - 31% a slight increase from the 29% reported last time.
- Schools - 72%, which is an increase from the 68% reported last time.

## 9. The Internal Audit Service

- 9.1. Although the Royal Borough of Greenwich advised us that they might no longer be able to conduct the school audits for us during 2016/17, they have found some capacity. They will be conducting some of the schools in the plan. The in-house team will conduct the rest.
- 9.2. Recruitment of three Principal Internal Auditors for the in-house team is now underway. The plan to have trainees remains but not until 2017/18 to ensure that the in-house team are fully established first.
- 9.3. Internal audit will continue to make use of the Croydon Framework (Mazars). They will be conducting the core financial audit and IT for 2016/17.
- 9.4. Officers continue to explore shared service and joint procurement opportunities with other Boroughs. These could include both the Internal Audit and Counter Fraud services.

## 10. Internal audit plan for 2016/17

- 10.1. The proposed internal audit plan for 2016/17 can be found in Appendix 1. This was presented to the Internal Control Board and Audit Panel for approval in March. However as the meeting was inquorate, it is represented here at Appendix 1 for approval.

## 11. Public Sector Internal Audit Standards (PSIAS)

- 11.1. The independent external PSIAS assessment took place in February 2016.
- 11.2. The full report is presented at Appendix 5. The conclusion from the assessor was: "We are pleased to report that the external assessment has concluded that the LBL Internal Audit Service is compliant with the requirements of the PSIAS".

- 11.3. The assessor has made some recommendations to improve the service. These recommendations are not a condition of the compliance with the standard but advisory to assist with continuous improvement.
- 11.4. The recommendations that Members are requested to agree are listed below.
- The Audit Panel and the Internal Control Board (ICB) should consider holding in-camera meetings with the Internal Audit Contract manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is undertaken. The CFO should provide similar support to the IA Contract Manager in regard to the audit of any system managed by the HIA.
  - The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).
- 11.5. Internal audit's response to the recommendations for officers can be found in the 'Annual assurance Report' to be presented to the June meeting of the Panel.

## **12. Legal implications**

12.1. There are no legal implications arising directly from this report.

## **13. Financial implications**

13.1. There are no financial implications arising directly from this report.

## **14. Equalities implications**

14.1. No direct equalities implications have been identified, in terms of adverse impact, with respect to the Council's obligations under the Equality Act 2010.

## **15. Crime and disorder implications**

15.1. There are no crime and disorder implications arising directly from this report.

## **16. Environmental implications**

16.1. There are no specific environmental implications arising directly from this report.

## **17. Background papers**

17.1. 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](mailto:david.austin@lewisham.gov.uk)

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Corporate Audits - (sorted by Core, IT, Contract, General and Grants).

Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
RRE	Budget Monitoring 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Budget monitoring of individual budget holders</li> <li>•Virements</li> <li>•Budget setting</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
RRE	Capital Expenditure 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Project management of capital projects / programmes</li> <li>•Payments accuracy / authorisation etc</li> <li>•Budget monitoring</li> <li>•Governance of corporate project board,</li> <li>•Expenditure monitored for closed projects.</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
RRE	Main Accounting 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Feeder systems</li> <li>•Reconciliations</li> <li>•Suspense / holding accounts</li> <li>•Access / separation / limits etc of the financial system.</li> <li>•Journals</li> <li>•Changes to budgets</li> <li>•Exception reports</li> <li>•Virements</li> <li>•Final Accounts reconciliation</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
RRE	Non-Current Assets 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Additions, depreciations, valuation and Verification of assets</li> <li>•Right to buy and other disposals</li> <li>•Reconciliations</li> <li>•Leases</li> <li>•Transfer of assets to community</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
RRE	Payroll 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Benefits (maternity, paternity etc) entitlement / payments / Sickness</li> <li>•Statutory regulations (i.e. P60, P45)</li> <li>•Deductions from salaries for third parties, council purposes and statutory purposes.</li> <li>•Overpayments</li> <li>•Payments - including amendments, honorarium, petty cash claims</li> <li>•BACS and non-BACS payment controls</li> <li>•Starters / Leavers</li> <li>•Reconciliations</li> <li>•Exception reports / Monitoring</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
RRE	Pensions for LGPS and TPS 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Contributions (including AVC)</li> <li>•Benefits payable (including abroad and benefits paid to dependents)</li> <li>•Auto enrolment - 2nd round of auto enrolment due in 16/17 for current employees</li> <li>•Transfers in or out of the scheme</li> <li>•Investments</li> <li>•Management Fees</li> <li>•Governance of the Scheme (PSP Act 2013) including the pension board</li> <li>•DPA</li> <li>•Teachers pension scheme, to include schools with own payroll / contracted out.</li> </ul>	8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams.

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
RRE	Treasury Management 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Review investment transactions for completeness, accuracy, compliance etc.</li> <li>•Reconciliations to GL</li> <li>•Forecasting</li> <li>•Cash flow</li> <li>•Borrowing</li> <li>•Investments</li> <li>•Performance monitoring</li> <li>•Monitoring of broker contract</li> <li>•Strategy</li> </ul>	8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams.
CUS	Accounts Payable 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•New suppliers and bank amendments</li> <li>•Payment of invoices (both PO and Non PO)</li> <li>•Late interest payments</li> <li>•Monitoring of PIs</li> <li>•Reconciliations</li> <li>•Exception Reports</li> <li>•Queries, complaints monitoring and processes</li> <li>•BACS and Non BACS payments</li> <li>•Authorisation / separation of duties / cash limits</li> <li>•DEP/ CEP adherence (Local Expenditure Panel)</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
CUS	Accounts Receivable 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Raising of accounts / invoices</li> <li>•Recovery of debts, including debt collection agencies, legal process, charges, reminders,</li> <li>•Write off / statute of limitations use</li> <li>•Access to system</li> <li>•Reconciliations</li> </ul>	9. Loss of income to the Council

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
CUS	Banking 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•NEW - Might be doing recurring card payments in 16/17</li> <li>•Review process for non-cash payments coming in by post / in person</li> <li>•Suspense / holding accounts</li> <li>•Cheque printing and security</li> <li>•Bank Reconciliations</li> <li>•Access to the receipting / recording feeder system.</li> <li>•Reconciliations of Paye.net, PayPoint, internet card payments, Bar-coded post office payments, SMS card payments and pre-paid cards.</li> <li>•Direct Debit Payments and Authorisation (assuming they do it in this section)</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
CUS	Client Contribution for Care Provision 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Calculations/ Assessment/ Authorisation / Recording / Amendments / Annual review / of contributions.</li> <li>•DPA compliance and Boarder Agency Checks. Evidence of Power of Attorney/ Third Party Agreements (or similar).</li> <li>•Recovery of Client contributions.</li> <li>•Information about help with contributions (i.e. Publications, website etc), how the resident is informed about the charges. Easiness of how to complete and read the form.</li> <li>•Deferred contribution scheme - how it is implemented and monitored (if applicable).</li> <li>•Legal Charges on Properties.</li> <li>•Access to system.</li> </ul>	9. Loss of income to the Council
CUS	Council Tax 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Calculations of bills</li> <li>•Arrears procedures and adherence, including summons, arrears collections / arrangements, bailiff action and court processes, attachment of earnings, probate cases</li> <li>•Setting of the council tax</li> <li>•Discounts / Reductions / Disregards</li> <li>•Valuation Office List</li> <li>•Liability</li> </ul>	9. Loss of income to the Council

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
		<ul style="list-style-type: none"> <li>•Voids</li> <li>•DPA</li> <li>•Write offs and Refunds</li> </ul>	
<b>CUS</b>	Housing Benefit 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Review applications and assessments in relation to, calculating to agreed rates, evidence / ID obtained, general compliance with legislation / Local procedures and approving payments. To include, claimants who work, self employed, students with dependents or are on benefits</li> <li>•Monitoring of exception reports.</li> <li>•Separation of duties from assessing to approving and authorising payments.</li> <li>•Overpayment recovery.</li> <li>•Reconciliation</li> <li>•Quality Assurance</li> <li>•Appeal Processes</li> <li>•Discretionary housing payments</li> <li>•DPA compliance</li> <li>•BACS - approving and amending bank details.</li> <li>•Amendments to local procedures etc.</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
<b>CUS</b>	Business Rates 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Calculations of bills</li> <li>•Arrears procedures and adherence, including summons, arrears collections / arrangements, bailiff action and court processes, etc</li> <li>•Setting of the NNDR rate</li> <li>•Exemptions / discounts / reductions / relief (including empty properties / charity / hardship / small business / community amateur sports clubs / )</li> <li>•Valuation Office List</li> <li>•Liability</li> <li>•Voids</li> <li>•DPA</li> <li>•Write offs and Refunds</li> </ul>	9. Loss of income to the Council

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
COM	Payments to Adult Care Providers 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Processing of invoices - ensuring calculations/ Annual assessments of clients reflects invoices / Authorisation / Recording / Amendments / are correct and have taken place and invoices are paid in time.</li> <li>•DPA Compliance between the council and care providers</li> <li>•Monitoring of exception reports (invoices).</li> <li>•Budget monitoring</li> <li>•Information about help with payments to clients in homes.</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget
CUS	ICT Governance Arrangements with Brent	To review the contract / governance Arrangement with LB Brent supply ICT to LBL.	2. ICT infrastructure is not fit for purpose and/or does not meet business needs
CUS	Business Continuity Plans for ICT and the LB of Brent	To review the BCP / DRP in the share service. To review if both parties can securely hold the data and can restores each other's data successfully.	1. Failure to maintain minimum service continuity during and quickly recover from a disaster
CUS	Payment Card Industry Data Security Standard (PCI DSS)	To review if the council can comply with the PCI DSS with the new Share service in place.	9. Loss of income to the Council
CUS	IT and Digital Strategy	To review the strategies (if separate) to see the rational,	30. Strategic programme to develop and implement transformational change does not deliver
CUS	Compliance with the Code of Connection (CoCo) and Public Sector Network (PSN).	To review framework on how the council is adhering to the CoCo. Also PSN	2. ICT infrastructure is not fit for purpose and/or does not meet business needs
CUS	Data Breaches - detection, reporting and Network Security	To review how the council detects, reports and following any action plans in relation to ICT Data Breaches. To include Spam Mail/ Malware and Denial of Service attacks. To review the security of the network to include intrusion detection and prevention service (IDS / IPS), Firewalls, Anti-virus and malware	21. Information governance failure.

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<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>CUS</b>	BACS testing	To review if the Bankers' Automated Clearing Services (BACS) controls at the council are secure.	7. Adequacy of Internal Control.
<b>CUS</b>	Virtual Private Network (VPN) / Mobile Working	To review the security of the new VPN (mobile working systems with Brent).	21. Information governance failure.
<b>RRE</b>	Pre contract and Tendering	To review the controls around the pre-contract arrangements (due diligence, assessment of bidders, code of practice, living wage etc). To attending tendering openings, and review the controls around making the assessments and notifying the bidders.	13. Failure to manage strategic suppliers and related procurement programmes.
<b>CUS</b>	Mobile Devices (Contract Monitoring)	To review the controls around issuing, monitoring call charges, monitoring of lost / stolen devices, and allocation of devices since centralisation.	13. Failure to manage strategic suppliers and related procurement programmes.
<b>CYP</b>	Schools' Catering Contract	To review the contract monitoring, payment received from schools and payments to the supplier, H&S adherence and complaint management.	13. Failure to manage strategic suppliers and related procurement programmes.
<b>RRE</b>	Regeneration and Capital Programme Boards	To review the governance of the board/s, review minutes, agreeing and monitoring of actions plans, and overall decision making process. To include the controls around referring and reporting of major projects.	13. Failure to manage strategic suppliers and related procurement programmes.
<b>CYP</b>	Minor Works Programme (Schools)	To review the expenditure, tendering / procurement process and monitoring of small works projects for schools.	15. Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition
<b>RRE</b>	Budget Savings and Decision Making Framework	To review the framework in relating to the budget savings only (core financial controls will be looked at separately). To take a sample of saving proposals and follow them through from initial proposal of individual budget savings, agreement and monitoring of the savings proposals, and reporting of the outcomes.	24. Failure to maintain sufficient management capacity & capability to deliver business as usual and implement transformational changes.

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<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>CUS</b>	Flagship Care Scheme for Older People accommodation	To review the building contracts in relation to extra care scheme. To review issuing of contracts, payments and monitoring. To include a review of the project management and contractual / tendering arrangements	13. Failure to manage strategic suppliers and related procurement programmes.
<b>CUS</b>	Monitoring of Lewisham Homes Management Agreement	To review the monitoring of the new agreement with Lewisham Homes, including the new responsibilities that LH are / will be responsible for.	5. Failure to anticipate and respond appropriately to legislative change. For example:
<b>COM</b>	Public Health - Target based payments to GPs	To review monitoring of the targets and payments of outputs / outcomes to GP (i.e. smoking, obesity).	12. Multi-agency governance failure leads to ineffective partnership working
<b>RRE</b>	Income Generation Scheme / Project	To review how the income was identified, if it legal and achievable. To include measuring, monitoring and reporting of the outcomes.	9. Loss of income to the Council
<b>RRE</b>	General Election Preparation	To review the project team placed with preparing for the General Election. To include arrangements with Greenwich in shared constituency. Potentially look at the IT system to ensure it is secure and has sufficient Business Continuity Plans in place.	29 Failure to implement Individual Electoral Registration (IER)
<b>RRE</b>	Key Performance Indicators (KPIs) and Departmental Service Plans.	To review how the KPIs are agreed, measured, monitored and reported. To include a review of the completion, monitoring and reporting of departmental service plans.	10. Failure to manage performance leads to service failure.
<b>RRE</b>	Apprenticeships, Graduates and other Professional Training Schemes	To review the monitoring and support of trainees on the different training schemes that the council participates in. To include, where applicable, recovery of income of professional fees where leavers leave the scheme early. To include the preparation of the changes to apprentices due to come in.	19. Loss of constructive employee relations

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<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>RRE</b>	Gifts and Hospitality and Declaration of Interests - Officers and Members	To review the compliance and policy for Gifts and Hospitality and Declaration of Interests, for both members and Officers. To include a review of the effectiveness of the process.	7. Adequacy of Internal Control.
<b>RRE</b>	Financial Regulations / Constitution	To review the Financial Constitution to see if it is fit for purpose and has no conflicting guidance.	7. Adequacy of Internal Control.
<b>RRE</b>	Building Control Approval	To review the framework (from application to sign off / non approval) round the types of building control -e.g. building notice, full plans and regularisation (retrospective).	5. Failure to anticipate and respond appropriately to legislative change.
<b>RRE</b>	Risk Maturity Review	To assess the risk maturity of the council.	7. Adequacy of Internal Control.
<b>RRE</b>	Procurement Card Expenditure	To review the spend on procurement cards to see if they limits are adhered to, reporting and action of non-adherence, issuing and stopping of cards, reasonableness of purchases, and physical assets location (where applicable).	6. Financial Failure and inability to maintain service delivery within a balanced budget
<b>RRE</b>	Expenses reimbursed by payroll and Procurement card.	To review the expenditure, authorisation, adherence to procurement and HMRC regulations, process of checking expenses through payroll and corporate card. (Not key control audit)	7. Adequacy of Internal Control.
<b>CUS</b>	Local Support Scheme	To review the controls surrounding emergency loans, support grants and Starting Work Awards (SWA). To include controls around data and investigations.	5. Failure to anticipate and respond appropriately to legislative change. For example:
<b>CUS</b>	Private Rented Sector Licensing Scheme.	To review the controls and adherence to the scheme, including identifying properties and landlords, billing and collecting of licence fees. .	4. Non-compliance with Health & Safety Legislation

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
CUS	Blue Badges, Freedom Passes, Discretionary Passes and Taxi cards	To review the controls surrounding the issuing and monitoring of the badges, passes and cards.	6. Financial Failure and inability to maintain service delivery within a balanced budget
CUS	House in Multiple Occupation (HMO)	To review the licence fee arrangements, issuing of licences and monitoring of any conditions needed to comply and identification of HMO properties.	4. Non-compliance with Health & Safety Legislation
CUS	Sundry Debtor System and Suspense Controls	To review the controls around the debtor system to review duplication of work, extracting information for departments. To include the follow up on independent recommendations.	9. Loss of income to the Council
CUS	Vehicle Fleet - Purchase, Maintenance and Fuel Tank maintenance at Wearside	To review the H&S, controls around fuel consumption, procurement and maintenance of council owned vehicles Wearside.	15. Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition
CUS	PayPal Project	To liaise and provide advice on the use of PayPal within the council.	30. Strategic programme to develop and implement transformational change does not deliver
CUS	Lewisham Website and Intranet Content Usability	Non-IT audit. To review for usability, accessibility, use of links, accuracy of content (i.e. is it up to date) for both the intranet and the Council website.	24. Failure to maintain sufficient management capacity & capability to deliver business as usual and implement transformational changes.
CYP	Payments to Care Provider and Foster Carers for Looked After Children 16-17 (Core Financial Audit)	<ul style="list-style-type: none"> <li>•Calculations/ Assessment/ Authorisation / Recording / Amendments / Annual review (if applicable) / of invoices - payments</li> <li>•Budget monitoring</li> <li>•DPA Compliance between the council and care providers (both foster parents and care providers in the framework.</li> <li>•Monitoring of exception reports (invoices).</li> </ul>	8. Lack of provision for unforeseen expenditure or loss of income in respect of Council's liabilities or funding streams.

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
CYP	Children looked after and achieving permanence (Adoption / Experiences and progress of care leavers) - Ofsted Framework Rolling Plan	To review this area or parts of this areas part of a three year. Specific areas to be agreed with management at the time of the review.	18. Failure of safeguarding arrangement.
CYP	Leadership Management and Governance - Ofsted Framework - Rolling Plan	To review this area or parts of this areas part of a three year. Specific areas to be agreed with management at the time of the review.	18. Failure of safeguarding arrangement.
CYP	Children who need help and protection - Ofsted Framework Rolling Plan -	To review this area or parts of this areas part of a three year. Specific areas to be agreed with management at the time of the review.	18. Failure of safeguarding arrangement.
CYP	No Recourse to Public Funds (NRPF) Case Framework	To review the framework surrounding No Recourse to Public funds to ensure that the controls in place after the initial pilot is now complete. To look at the casework system.	6. Financial Failure and inability to maintain service delivery within a balanced budget
CYP	Monitoring of Child Care Providers	To review the monitoring of Child Social Care Providers (non-financial) if: The properties are fit for purpose (secure/maintained), staff are trained and security checked (DBS / police checks), registered social workers on site etc.	18. Failure of safeguarding arrangement.
CYP	Project Management Review Framework and Training	To review the framework for project management including training across the council.	30. Strategic programme to develop and implement transformational change does not deliver
COM	Direct Payments 16-17 (Core Financial)	<ul style="list-style-type: none"> <li>•Review the assessing, monitoring, allocation of payments, recovery of overpayments, to clients for personalisation (personal / individual budget etc).</li> <li>•Review the monitoring by the council on behalf of clients who received personalisation (i.e. the cash part).</li> <li>•DPA compliance between the client and council.</li> </ul>	6. Financial Failure and inability to maintain service delivery within a balanced budget

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Lead Dir.	Name of Audit	Indicative Scope	Linked to which Corporate Risk
		•Budget monitoring	
COM	Business Continuity Plans for Adult Social Care Providers	To review the BCP in relation to Adult Social Care provision in the event of company failure.	28. Failure to agree with partners integrated delivery models for local health and care services.
COM	Broadway Theatre	To review the Programme / Project management for redevelopment / restoration the Broadway Theatre.	15. Loss of a strategic asset or premises through failure to maintain it in a safe and effective condition
COM	Safe Guarding and Assurance Adults - Proactive Monitoring of Referrals	To review the framework of the referral process in relation to institutional abuse (historic and present). To include linking back to the strategy, assessment process of the referrals, monitoring of the referrals and action plans and complaints process	18. Failure of safeguarding arrangement.
COM	Community Budget with Southwark and Lambeth	To review the governance, pooled budgets, budget monitoring and outcomes of the Community Budget.	28. Failure to agree with partners integrated delivery models for local health and care services.
COM	Licensing	To review the controls around application and approval of licences, payments for licences, reporting of decisions, and removal of licences for applicable areas (liquor, gambling, entertainment etc).	12. Multi-agency governance failure leads to ineffective partnership working
COM	Supporting People	To review the controls / contract management in relation to supporting people. Area to be confirmed but could include single homeless with needs, / alcohol / offenders / domestic violence / mental health issues / older people with needs,	12. Multi-agency governance failure leads to ineffective partnership working

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<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>COM</b>	Home Care Provision	To review the commissioning and / or monitoring of the re-commissioned Home Care Service	18. Failure of safeguarding arrangement.
<b>COM</b>	Adult Learning Lewisham	To review income, refunds, discounts around course payments and payments to Tutors. To include compliance with DPA. (If applicable), recruitment of tutors, staff, and governance.	10. Failure to manage performance leads to service failure.
<b>COM</b>	Mental Capacity Act (MCA) and Deprivation of Liberty Safeguards (DOLS)	To review the controls and safeguards around using the MCA and DOLS.	18. Failure of safeguarding arrangement.
<b>CYP</b>	Troubled Families Programme Grant Submission	To review the submission for the TFP claims	N/A

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**School Audits**

<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>SCH</b>	Brindishe Green Primary	Standard Schools' Programme	Various
<b>SCH</b>	Brindishe Manor	Standard Schools' Programme	Various
<b>SCH</b>	Clyde Nursery	Standard Schools' Programme	Various
<b>SCH</b>	Dalmain Primary	Standard Schools' Programme	Various
<b>SCH</b>	Deptford Park Primary	Standard Schools' Programme	Various
<b>SCH</b>	Drumbeat School (Special)	Standard Schools' Programme	Various

**Appendix 1 - Draft Audit Plan 2016/17**

<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>SCH</b>	Good Shepherd Catholic School	Standard Schools' Programme	Various
<b>SCH</b>	Holy Cross Catholic Primary	Standard Schools' Programme	Various
<b>SCH</b>	Horniman Primary	Standard Schools' Programme	Various
<b>SCH</b>	John Stainer Primary	Standard Schools' Programme	Various
<b>SCH</b>	Lucas Vale Primary	Standard Schools' Programme	Various
<b>SCH</b>	Marvels Lane Primary	Standard Schools' Programme	Various
<b>SCH</b>	Myatt Garden Primary	Standard Schools' Programme	Various
<b>SCH</b>	Rangefield Primary	Standard Schools' Programme	Various
<b>SCH</b>	Rathern Primary	Standard Schools' Programme	Various
<b>SCH</b>	Rushey Green Primary	Standard Schools' Programme	Various
<b>SCH</b>	Sandhurst Infant	Standard Schools' Programme	Various
<b>SCH</b>	Sandhurst Junior	Standard Schools' Programme	Various
<b>SCH</b>	St Augustine's Catholic Primary	Standard Schools' Programme	Various
<b>SCH</b>	St Joseph's Catholic Primary	Standard Schools' Programme	Various
<b>SCH</b>	St Mary's CE Primary	Standard Schools' Programme	Various
<b>SCH</b>	St Stephen's CE Primary	Standard Schools' Programme	Various

**Appendix 1 - Draft Audit Plan 2016/17**

<b>Lead Dir.</b>	<b>Name of Audit</b>	<b>Indicative Scope</b>	<b>Linked to which Corporate Risk</b>
<b>SCH</b>	Stillness Infant	Standard Schools' Programme	Various
<b>SCH</b>	Stillness Jnr	Standard Schools' Programme	Various
<b>SCH</b>	Torridon Infant	Standard Schools' Programme	Various
<b>SCH</b>	Torridon Junior	Standard Schools' Programme	Various
<b>SCH</b>	Turnham Primary	Standard Schools' Programme	Various
<b>Follow ups</b>			
<b>SCH</b>	Watergate school	Follow up on school recommendations	n/a
<b>SCH</b>	Adamsrill School	Follow up on school recommendations	n/a
<b>All</b>	Non-Core Financial Follow up	Follow-up on 15-16 Non - core financials	n/a
<b>All</b>	Core Financial Follow-up	Follow-up on 15-16 core financials	n/a
<b>TBC. May be independent audit / joint audit with respective partners / LBL audit.</b>			
<b>CUS</b>	Oracle - annual audit	To review the arrangement for auditing the security of Oracle in relation to all boroughs (i.e. joint with other boroughs). To see if the Governance, Risk & Control part of the solution is now in operation.	
<b>RRE</b>	Pension Collective Investment Vehicle (CIV)	To review the arrangements for the auditing of / or audit the Collective Investment Vehicle as a Financial Control Authority registered company of which the Council is a shareholder.	

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Commissioning and Procurement Board –  
2015/16



Internal Audit Assurance Opinion	Risk Headings				
▲ Limited	H	M	L		
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).	●	1. Board Governance	-	3	-
	▲	2. Reporting, Monitoring and Adherence to the OGC Gateway Process	1	3	-
	<b>Total</b>		<b>1</b>	<b>6</b>	<b>-</b>

### Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 10.

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.

### Key findings that need attention

- The terms of reference for the Commissioning and Procurement Board is still in draft form and also needs to be updated;
- Not all members of the Commissioning and Procurement Board attend meetings regularly;
- Commissioning and Procurement Board meeting minutes were not available for three meetings held in 2015;
- The criteria of the Council's transformation programme was not formally defined;
- The Commissioning and Procurement Board does not monitor tendering exercises that exceed £50,000;
- The Commissioning and Procurement Board does not evidence the review of risk registers in respect of high risk / or high impact contracts, and
- The Commissioning and Procurement Board did not evidence that gateway reviews were being consistently conducted as required.

### Are as that worked well

Based on testing conducted by Internal Audit, it was noted that:

- There is a Procurement Handbook in place that demonstrates adherence to applicable EU directives; and
- The Council's processes for commissioning, procurement and contract procedure rules are determined and evidenced as reviewed by the Commissioning and Procurement Board.

The follow up for this audit will take place within nine months after the final audit report.

Management are required to update the progress of any Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Adherence to Transaction code 2015-16



Internal Audit Assurance Opinion	▲ Limited	Direction of Travel	N/A	Risk Headings	H	M	L
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).				▲ 1. Publishing of Data	1	1	-
<b>Introduction</b> The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 7.				▲ 2. Verification of data		1	-
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.				<b>Total</b>	<b>1</b>	<b>2</b>	<b>-</b>

### Key findings that need attention

- There is no defined process or procedures and policies in place to ensure compliance with the Local Government Transparency Code 2015 (LTGC);
- The required information /data is not being published as required; and
- The information published is not evidenced as verified for accuracy prior to publishing.

### Areas that worked well

Based on testing conducted by Internal Audit, it was noted that:

- The Constitution for the Local Authority is published on the Councils website and
- Expenditure above £500 is published as required.

The follow up for this audit will take place at nine months after the final report.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Client Contribution for Care Provision 2015-16



Internal Audit Assurance Opinion	▲ Limited	Direction of Travel	↔	Risk Headings	H	M	L	
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).				▲	1. Eligibility and Financial Assessments	1	6	-
<b>Introduction</b> The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 18.  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. <b>Some of the issues raised in this report are so significant, that if not resolved in a timely manner will result in a no assurance audit report.</b>				▲	2. Recovery of Client Contributions	-	2	1
				▲	3. Deferred Contribution Scheme	1	-	-
					<b>Total</b>	<b>2</b>	<b>8</b>	<b>1</b>

### Key findings that need attention (\*\*identified in previous audit)

- The assessment and benefits procedure notes are dated 2014/2015 and do not reflect the changes in the new Care Act;
- Data Protection training for the Assessment and Benefits Team was not evidenced;
- For eight of the sample of 20 cases referred by Social Services, the Initial needs assessments were either not recorded or did not include relevant information needed;
- \*\*231 of the initial assessments from 2014/15 were overdue for reassessment and 18 initial assessments for 2015/16 were overdue;
- \*\*Management does not obtain formal consent from clients in to order to use and share their personal information;
- \*\*For ten of the sample of 20 electronic client records examined, only the consolidated report of an initial overview of the clients financial assessment (W6 form), had been uploaded;
- For three of the sample of 12 leavers, IT access had not been appropriately disabled;
- The Central Debtors Collection Procedure Notes did not reflect the new practices;
- Some instances were identified where instalment payments were defaulted and were not evidenced as adequately monitored or followed up;
- Unpaid high value debts (over £10,000) had not been referred to the Legal Department for appropriate recovery action, and
- The eligibility criteria for the Defined Contribution Scheme have been under review by Legal Services since April 2015 and are thus not approved. Consequently, Deferred Payments Agreements (DPAs) are not been set up for clients and the Council is unable to place charges on properties

Follow up status of previous High & Medium recommendations			
Implemented	In Progress	Superseded	Not Implemented
2	2	-	2

The follow up for this audit will take place at the next annual review.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Banking 2015-16



Internal Audit Assurance Opinion	▲ Limited	Direction of Travel	↔	Risk Headings	H	M	L
<p>★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).</p> <p><b>Introduction</b> The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 10.</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><b>Key findings that need attention</b> (**identified in previous audit)</p> <ul style="list-style-type: none"> <li>• **Some of the procedures notes examined need to either be updated, linked to the QMS site or be removed from the site as these were no longer applicable;</li> <li>• Uncleared items were being held as Aim 'exceptions' for up to six months before being moved to the general ledger 'unidentified income' account;</li> <li>• There was a cumulative balance of £1.683m on the general ledger 'unidentified income' account; and</li> <li>• The 'Aim Daily Balancing Summaries' were not up-to-date at the time of audit resulting in delayed bank reconciliations.</li> </ul> <p><b>Areas that worked well</b> Based on testing conducted by Internal Audit, it was noted that:</p> <ul style="list-style-type: none"> <li>• Appropriate information was provided to the public on how to make payments.</li> </ul>	▲	1. Payments	1	2	1		
	●	2. Cheque Printing and Security	-	-	-		
	★	3. Access to receipting/recording feeder system	-	-	-		
	▲	4. Reconciliations	-	1	-		
		<b>Total</b>	<b>1</b>	<b>3</b>	<b>1</b>		

Follow up status of previous High & Medium recommendations			
Implemented	In Progress	Superseded	Not Implemented
2	0	0	0

The follow up for this audit will take place at the next annual review.

Management are required to update the progress any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Contract Management- Children's Centres  
2015/16



Overall Internal Audit Assurance Opinion	Risk Headings			H	M	L
▲ Limited						
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).	▲	1.Contract and Contract Variation		1	1	1
	▲	2.Payments		-	2	-
	●	3.Contract Monitoring and Management Reporting		-	2	1
		<b>Total</b>		<b>1</b>	<b>5</b>	<b>2</b>

### Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 9.

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.

### Key findings that need attention

- The Service Level Agreement (SLA) with one of the providers had expired;
- SLAs and variations to SLAs were not being formally agreed prior to commencement;
- Contract payments were not made in a timely manner;
- Contract payments (via journal) were not approved appropriately;
- Common Assessment Framework (CAF) reports are not being logged onto the Lewisham CAF database; and
- Service provider activities are not advertised in the Family Services Directory (FSD).

### Areas that worked well

Based on testing conducted by Internal Audit, it was noted that:

- The contract monitoring arrangements are detailed in the contract specification document;
- The Service Level Agreements were evidenced as being reviewed by Legal Services, and
- Detailed quantitative and qualitative information is included in quarterly reporting templates.

### Follow-up

The follow up for this audit will take place within nine months from the date of the final report.

Management are required to update the progress of any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Backup and Business Continuity for Adult Social Care System 2015/16



**Internal Audit Assurance Opinion** ▲ Limited

★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (See glossary for definitions).

### Introduction

The Liquidlogic Adults' Social Care System (LAS) manages the key processes of the adult social services function, supporting over 7,000 clients with an annual spend £81.5m as at 2014/15 financial year end.

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 8.

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.

### Key findings that need attention

- There is no formalised disaster recovery plan and procedures for the Adult Social Care Application;
- There is no evidence to confirm the adequacy of backups for the application; and
- The Disaster Recovery risk assessment/business impact assessment for all the systems, including the Social Care system, was not up to date.

### Areas that worked well

Based on testing conducted by Internal Audit, it was noted that:

- The IT Section are aware of the current challenges regarding Disaster Recovery and Backups for the Social Health Care System; and
- They are planning to address these issues through a Shared ICT Service with LB Brent starting in April 2016.

Risk Headings		H	M	L
▲	1. Backups	1	-	-
▲	2. Disaster Recovery Plan (DRP) and Business Continuity Plan (BCP)	1	1	-
<b>Total</b>		<b>2</b>	<b>1</b>	

### Follow-up

The follow up for this audit will take place within nine months from the date of the final report.

Management are required to update the progress of any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

## Appendix 2 - Executive Summaries from Limited, No Assurance or Consultancy Reviews

Executive Summary for Contract Management- Learning Disability  
2015/16



Overall Internal Audit Assurance Opinion	Risk Headings				
▲ Limited					
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).	●	1.Contract and Contract Variation	-	2	-
	●	2.Payments	-	1	-
	▲	3.Contract Monitoring and Management Reporting	-	5	-
		<b>Total</b>	-	<b>8</b>	-

### Introduction

The background for this internal audit including the agreed scope and risks identified, are included in the Terms of Reference (ToR) which can be found on page 8.

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.

### Key findings that need attention

- One contract was formally agreed after the commencement date;
- The deed of variation to the price schedule was not signed by a representative of the Council as evidence of agreement. It was also not dated;
- Incorrect payments (underpayments) were made for six out of ten invoices between April and September 2015;
- Quarterly reporting is not being performed by the service provider as required;
- Service user and carer satisfaction surveys have not been performed or reported to the Council by the service provider;
- The Council does not perform periodic audits of the service provided; and
- Quarterly operational meetings are not held with the service provider.

### Areas that worked well

Based on testing conducted by Internal Audit, it was noted that:

- The contract monitoring arrangements are detailed in the contract specification document;
- The Framework Agreement was evidenced as being reviewed by Legal Services, and
- Outcomes and performance measures are specified in the contract documentation.

### Follow-up

The follow up for this audit will take place within nine months from the date of the final report.

Management are required to update the progress of any High or Medium recommendations on the Recommendations SharePoint site.

### Changes to the scope

This audit was conducted in line with the agreed Terms of Reference.

### Appendix 3 - Follow up results

Lead Dir.	Audit Followed Up (Corporate)	Opinion	Final Rpt Date	F/up Rpt Date	Impl'd	In Progress	Supers'd	Not Impl'd	Total
RRE	Payroll 2014/15	Satisfactory	12/05/15	11/04/16	7	1			8
RRE	Programme & Project Mngmt	Satisfactory	29/06/15	11/04/16	3	1			4
RRE	Pensions 2014/15	Satisfactory	31/03/15	01/04/16	7	1		1	9
RRE	Capital Expenditure 14/15	Satisfactory	24/06/15	22/03/16	4	1			5
RRE	Budget Monitoring 14/15	Satisfactory	29/04/16	01/03/16	3	3			6
CUS	Housing Benefit 14/15	Satisfactory	30/06/15	21/04/16	1	1		1	3
CUS	Banking 14/15	Limited	10/06/15	07/03/16	2				2
COM	Public Health Contracts	Satisfactory	29/06/15	15/04/16	1	2		1	4
COM	Client Contributions for Care Provision 14-15	Limited	30/06/15	01/04/16	2	2		2	6
CYP	Payments for 2-4 year olds	Substantial	24/06/15	07/03/16	1	1			2
<b>Total</b>					<b>31</b>	<b>13</b>	<b>-</b>	<b>5</b>	<b>49</b>

Lead Dir.	Audit Followed up (School)	Opinion	Final Rpt Date	F/up Rpt Date	Impl'd	In Progress	Supers'd	Not Impl'd	Total
SCH	Watergate Special School	Limited	11/08/15	09/05/16	11	1		1	13
SCH	Adamsrill Primary School	Limited	26/08/15	26/04/16	9	5		2	16
<b>Total</b>					<b>11</b>	<b>7</b>	<b>-</b>	<b>1</b>	<b>19</b>

#### Appendix 4 – Status of Recommendations

Dir.	Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
RRE	Budget Setting 15-16	Satisfactory	01/03/16	1			1	
RRE	Capital Expenditure 14-15	Satisfactory	24/06/15	1			1	
RRE	Main Accounting 14-15	Satisfactory	18/06/15		1			Changed 4 times
RRE	Pensions 2015/16	Satisfactory	01/04/16				2	
RRE	Procurement 14-15	Satisfactory	24/07/15	3				
RRE	Programme and Project Management (14-15)	Satisfactory	29/06/15			1		
RRE	Project Management - Governance and Project Review Group (PRG) 13/14	Satisfactory	16/07/14		3	4		Changed 2 times
RRE	Risk Management	Satisfactory	17/12/15	2				
CUS	Accounts Payable 14-15	Limited	11/06/15		1			Changed 3 times
CUS	Accounts Receivable 15-16	Limited	15/01/16	2			2	
CUS	Banking 15-16	Limited	07/03/16				1	
CUS	Business Continuity Plans - ICT and Telephony	Satisfactory	06/07/15		1			Changed 2 times
CUS	Business Rates 15-16	Satisfactory	30/04/16	1				
CUS	Client Contributions for Care Provisions 15-16	Limited	01/04/16	2			3	
CUS	Council Tax 15/16	Satisfactory	30/04/16	1				
CUS	Disaster Recovery for ICT Infrastructure	Limited	19/04/13	2	3			1 - Changed 2 times 2 - Changed 3 times
CUS	Payments Centre	Satisfactory	26/09/13		1	1		Changed 4 times
CUS	Registrars 15-16	Satisfactory	30/06/16		1			Changed 3 times

## Appendix 4 – Status of Recommendations

Dir.	Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
CUS	SharePoint 14-15	Satisfactory	13/10/15	1				
RRE (COM)	Budget Setting 15-16	Satisfactory	01/03/16	2			2	
COM	Client Contributions for Res and Dom care 14-15	Limited	30/06/15	1				
COM	Client Contributions for Res and Dom care 15-16	Limited	01/04/16				3	
COM	Learning Disability Respite - Contract Management	Limited	14/03/16	8				
COM	Payments to Adult Care Providers 2014-15	Satisfactory	18/06/15	1		1		ICB reopened rec
COM	Public Health Contracts	Satisfactory	29/06/15			3		
COM	South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15	3				
CYP	Children's Centres Contract Management	Limited	14/04/16	3				
CYP	Estate Management Statutory Maintenance	Satisfactory	06/12/13	1	1			Changed 6 times.
CYP	Payments for 2-4 year olds	Substantial	24/06/15		1			Changed 2 times
CYP	Payments to Care Providers and Foster Carers 14-15	Satisfactory	09/06/15		2			Changed 3 times
CYP	School Catering Contract - client monitoring	Satisfactory	09/07/14	1	1			Changed 3 times
CYP	Youth Service	Satisfactory	01/07/15	1				
<b>Total</b>				<b>37</b>	<b>16</b>	<b>10</b>	<b>15</b>	

## Appendix 4 – Status of Recommendations

Dir.	Name of Audit (School)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Comment
SCH	Adamsrill Primary School 15/16	Limited	26/08/15	1		6	Follow up complete
SCH	All Saints Primary 14-15	Satisfactory	11/03/15	1			
SCH	Althelney Primary 15/16	Satisfactory	10/03/16	4			
SCH	Brent Knoll Special 14/15	Satisfactory	19/12/14	1	1		Changed 2 times
SCH	Chelwood Nursery 15-16	Satisfactory	22/10/15	3	1		Changed 2 times
SCH	Coopers Lane Primary 14-15	Substantial	26/02/15	1			
SCH	Elfrida Primary School 14-15	Limited	05/03/15		1	1	
SCH	Forster Park Primary	Substantial	27/01/16	5			
SCH	Holbeach School 15-16	Satisfactory	03/02/16	10			
SCH	Kender School 15-16	Satisfactory	06/07/15	1			
SCH	Launcelot Primary	Satisfactory	23/02/16	6			1 - Changed 2 times 1 - Changed 3 times
SCH	Our Lady and St Philip Neri 15-16	Satisfactory	04/02/15	10			
SCH	Sedgehill 15-16	Satisfactory	30/04/16	1			
SCH	St James Hatcham 14-15	Satisfactory	26/02/15	9			
SCH	St Mary Magdalen's Catholic Primary 15-16	Satisfactory	02/07/15	2			
SCH	St Michael's Cof E Primary School	Substantial	30/11/15	3			
SCH	St Saviours RC Primary School 14-15	Substantial	30/04/15	2			
SCH	Sydenham Schools 15-16	Substantial	27/11/15	2			
SCH	Torridon Junior School 13-14	Substantial	07/04/14	1			

**Appendix 4 – Status of Recommendations**

Dir.	Name of Audit (School)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Comment
SCH	Trinity Through School 15-16	Satisfactory	13/11/15	6			
SCH	Turnham Primary School 13-14	No Assurance	31/07/14	9			
	Watergate School 15-16	Limited	11/08/15	6			
<b>Total</b>				<b>84</b>	<b>3</b>	<b>7</b>	

**Appendix 5 – Final PSIAS assessment report, February 2016**

**Appendix 6 – Internal Audit Charter for 2016/17**

These two appendices are tabled as separate documents.

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London Borough of Lewisham  
Internal Audit Service

Public Sector Internal audit Standards  
External Quality Assessment

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## 1. Introduction & Background

Along with other UK public sector bodies, Local authorities have adopted the Public Sector Internal Audit Standards (PSIAS) from 1 April 2013.

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.

The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

### Definition of Internal audit

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.

### Code of Ethics

1. Integrity	2. Confidentiality
3. Objectivity	4. Competency

Public Sector Internal Audit Attribute Standards	
<ul style="list-style-type: none"> <li>1000 Purpose, Authority and Responsibility</li> </ul>	<ul style="list-style-type: none"> <li>1200 Proficiency and Due Professional Care</li> </ul>
<ul style="list-style-type: none"> <li>1100 Independence and Objectivity</li> </ul>	<ul style="list-style-type: none"> <li>1300 Quality Assurance and Improvement Programme</li> </ul>

Public Sector Internal Audit Performance Standards	
<ul style="list-style-type: none"> <li>2000 Managing the Internal Audit Activity</li> </ul>	<ul style="list-style-type: none"> <li>2400 Communicating Results</li> </ul>
<ul style="list-style-type: none"> <li>2100 Nature of Work</li> </ul>	<ul style="list-style-type: none"> <li>2500 Monitoring Progress</li> </ul>
<ul style="list-style-type: none"> <li>2200 Engagement Planning</li> </ul>	<ul style="list-style-type: none"> <li>2600 Communicating the Acceptance of Risks</li> </ul>
<ul style="list-style-type: none"> <li>2300 Performing the Engagement</li> </ul>	

Standard 1300 emphasises the importance of quality assurance:- *“The chief audit executive must develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity”*.

Standard 1312 go on to state that: *‘External assessments must be conducted at least every five years by a qualified, independent reviewer or assessment team from outside the organisation. The chief audit executive must discuss with the board:*

- The form of external assessments; and*
- The qualifications and independence of the external assessor or assessment team, including and potential conflict of interest’.*

## 2. Form of External Assessment

The London Borough of Lewisham (LBL) Internal Audit Service has chosen to undertake a self-assessment based on a local authority developed checklist that follows the PSIAS. The external assessor has been used to verify the completeness and accuracy of the self-assessment. This has been done by inspecting documentary evidence and interviewing key personnel.

### 3. External Assessor

The assessment has been completed by Derek Corbett, CPFA, Managing Director of London Audit Consortium (LAC).

LAC is an NHS based internal audit consortium hosted by Barts Health NHS Trust. LAC was established in 2008 but the predecessor organisations from which it developed date back to 1986 in the earliest instance. LAC provides internal audit, counter fraud, security management and consultancy services to a number of NHS and other public sector and voluntary sector clients.

Derek Corbett, CPFA, is a qualified accountant with over 30 years' experience of directing internal audit services in public sector organisations. He has managed LAC since its formation and previously directed London City Audit Consortium from 1997 until its merger with two other London NHS audit consortia to form LAC in 2008.

Derek has contributed to the development of the Public Sector Internal Audit Standards through his membership of two NHS national groups, HFMA Governance and Audit Committee and The Internal Audit Network (TIAN).

TIAN is a confederation of the 14 NHS internal audit consortia operating in England. It was founded in 2011. Derek proposed the creation of the group and has chaired its executive committee since its inception. TIAN members collectively hold around 60% of market share for NHS organisations and employ around 600 staff.

### 4. LBL Internal Audit Service Background

The internal audit service is strategically and operationally managed by an in house team comprising the Head of Internal Audit (HIA), David Austin and the Internal Audit Contract Manager (IACM), Julie Heatherington.

The HIA has significant other non-audit duties including responsibility for:

- Insurance;
- Risk management;
- Strategic Finance;
- Procurement;
- Health and Safety;
- Counter Fraud.

This is therefore a risk to internal audit independence and objectivity but it is managed by:

- granting the IACM direct access to the Chief Finance Officer (CFO), Chief Executive Officer (CEO) and chair of the audit Panel;
- allowing the IACM to plan and audit all areas under the control of the HIA without the involvement of the HIA, including the right to report directly to management on any findings, conclusions and recommendations.

Some operational work is undertaken by the Internal Audit Contract Manager although the majority is completed by two contractors, Mazars and Royal Borough of Greenwich (RBG)

Internal Audit Service. The Mazars contract lead is David Phillips, Audit Manager and operational management is provided by Tuoyo Dada, Assistant Manager.

LBL has developed a charter and internal audit manual that describes standard working practices.

Mazars was appointed through a framework agreement. LBL has developed an internal audit protocol for Mazars. This specifies its service requirements to Mazars, including compliance with the PSIAS. Mazars has also specified its understanding of its service obligations to LBL through an engagement letter. Mazars staff follow an ISO9001 accredited internal audit and quality manuals. These have been designed to comply with the PSIAS. Internal and external inspection processes seek to measure compliance with the manuals.

The RBG team has been engaged by LBL to conduct school audits. A SLA sets out the service requirements of LBL. The RBG service provider provides circa 140 days of the 950 day plan. LBL has set out its service requirements for RBG in a service level agreement.

## 5. Objectives, Scope & Approach

The overall objective was to provide an independent external assessment of LBL compliance with the Public Sector Internal Audit Standards.

The approach comprised:

1. Self-assessment to be completed by LBL, including compilation of evidence to support the assessment;
2. Structured desk top review of documentation;
3. Interviews with the Head of Internal Audit, Internal Audit Contract Manager, Mazars contract lead and manager;
4. Draft report for discussion;
5. Presentation of final report.

RGB Internal Audit Service is unfortunately unable to deliver internal audit services to LBL from April 2016. A review of their working practices was therefore not considered appropriate by LBL due to the timing of this decision and this assessment.

Any information and documentation provided by LBL to conduct this review is commercially sensitive, will remain confidential and will not be used for commercial gain.

## 6. Findings, Conclusions and Recommendations

We are pleased to report that the external assessment has concluded that the LBL Internal Audit Service is compliant with the requirements of the PSIAS.

Key findings, conclusions and recommendations for every individual standard are detailed below at **Appendix A**.

A detailed working paper, prepared by LBL and the external assessor provide further support to this report. This has been passed across to Julie Hetherington, IACM.

A handwritten signature in black ink that reads "Derek Corbett". The signature is written in a cursive style with a large initial 'D' and a stylized 'C'.

Derek Corbett CPFA  
Managing Director  
**London Audit Consortium**

Ref	Conformance with the Definition of internal Auditing	Y	P	N	Recommendations
1	<p><b>Definition of Internal Auditing</b></p> <p>Evidence has been provided to demonstrate overall compliance.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>The HIA has non audit duties. This is managed by compensating control that allows the IA Contract Manager to review such systems without the involvement of the HIA. This is assessed within the attribute standard 1100 below.</li> <li>Mazars do not provide evidence of their declarations of interest to LBL.</li> </ul>	X			R1 Mazars to share declarations of interest with LBL or complete LBL pro-formas

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Ref	Conformance with the Code of Ethics	Y	P	N	Evidence
2	<p><b>Code of Ethics</b></p> <p><b>Integrity</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			R2 Mazars should be asked to provide details of their internal

Ref	Conformance with the Code of Ethics	Y	P	N	Evidence
	<u>Observation</u> Mazars do not presently share details of their ISO9001 internal or external inspections and do not therefore provide assurance as to their compliance with IA standards.				and external quality review audits that presently demonstrate compliance with their ISO9001 quality system and through this, compliance with IA standards.
	<b>Objectivity</b> Evidence has been provided to demonstrate compliance.  <u>Observation:</u> Mazars maintain a gifts and hospitality register for their staff. LBL is presently not sighted on pertinent details.	X			<b>R3</b> Mazars should be asked to either share their gifts/ hospitality register or be required to participate in the LBL system.
	<b>Confidentiality</b> Evidence has been provided to demonstrate compliance	X			
	<b>Competency</b> Evidence has been provided to demonstrate compliance.	X			

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Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
3.1	1000 Purpose, Authority and Responsibility				

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	Evidence has been provided to demonstrate compliance.	X			
3.2	<p><b>1100 Independence and Objectivity</b></p> <p>Evidence has been provided to demonstrate compliance with objectivity. The configuration of the service, where the HIA has non audit duties does potentially impact on independence. However, compensating controls are in place.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>The configuration of the service, where the HIA has non audit duties could potentially impact on independence. However, compensating controls are in place. These could be further strengthened by clarifying further in the Audit charter the independence of the IACM and improving the support afforded to the IACM from the CFO and Audit Panel Chair.</li> <li>Mazars do not provide evidence of their declarations of interest to LBL</li> <li>Audit ToRs and IA reports do not report independence of the auditor undertaking the work.</li> <li>Although the Chair of the Audit Panel has been requested to provide feedback on the performance of the HIA, it is unclear to the HIA whether this has been</li> </ul>	X			<p><b>R4</b> So as to improve clarity, paragraph 5.5 of the Audit Charter should be reworded thus:  <b><i>As the HIA has line management responsibility for a number of operational activities not relating to internal audit, to safeguard audit objectivity whenever these systems are audited by the internal audit team, the IACM will operate independently of the HIA and will for these matters report directly to the CFO.</i></b></p> <p><b>R5</b> Consideration should be given to renaming the Internal Audit Contract Manager post as <b>Operational HIA</b> to make clearer the remit of the post. The job description could also state:</p> <ul style="list-style-type: none"> <li>the post holder’s authority to act independently of the HIA in regard to audits of systems managed by the HIA and the reporting line directly to the CFO in such instances;</li> <li>that the IACM will deputise for the HIA in regard to internal audit matters only.</li> </ul> <p><b>R6</b> consider introducing a standard paragraph into project ToRs and audit reports stating that the auditor has no conflict of interests. This will demonstrate that independence is considered as part of project planning. It will therefore strengthen the assurance presently made in the Audit Charter and the Annual Assurance Report that the internal audit service complies with the PSIAS (and therefore operates with appropriate independence).</p> <p><b>R7</b> The Audit Panel and Internal Control Board should consider holding in-camera meetings with the Internal Audit Contract</p>

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	<p>provided.</p> <ul style="list-style-type: none"> <li>The IACM job description refers to deputizing for the HIA. It does not narrow the scope of this responsibility to internal audit matters, although it is understood that this is what is meant.</li> </ul>				<p>Manager to ascertain if this manager has any concerns as to the independence of the present arrangements. This should be done at least annually in general terms and whenever an audit of a system managed by the HIA is undertaken. The CFO should provide similar support to the IA Contract Manager in regard to the audit of any system managed by the HIA.</p> <p><b>R8</b> The Audit Panel should consider annually completing an effectiveness assessment that includes an assessment of the effectiveness of the internal audit service and HIA. A number of assessment templates exist. The NHS typically uses one prepared by the Healthcare Financial Management Association (HFMA).</p>
	<p><b>1200 Proficiency and Due Professional Care</b></p> <p>Evidence has been provided to demonstrate compliance.</p> <p><u>Observation</u></p> <p>Mazars do not advise LBL of compliance with their staff appraisal or training programmes</p>	X			<p><b>R9</b> LBL should consider asking Mazars to periodically declare compliance with their staff appraisal and training systems (note: the need to conduct appraisals and operate training programmes for staff seem not to be in the scope of the ISO9001 system and therefore independent inspections by BSI cannot be relied upon for this purpose) .</p>
3.4	<p><b>1300 Quality Assurance and Improvement Programme</b></p> <p>Evidence has been provided to demonstrate compliance.</p>	X			

Ref	Conformance with the Attribute standards	Y	P	N	Recommendations
	<p><u>Observation</u></p> <p>The IACM does not review Mazars project working papers. Reliance is placed on the Mazars QA process being completed.</p>				<p><b>R10</b> When submitting draft reports to the IACM Mazars should provide written confirmation that the working papers and draft report have been subject to their normal quality assurance process and all review points have been addressed.</p>

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
4.1	<p><b>2000 Managing the Internal Audit Activity</b></p> <p>Evidence has been provided to demonstrate compliance.</p> <p><u>Observations:</u></p> <ul style="list-style-type: none"> <li>• Liaison with external audit has recently diminished.</li> <li>• Presently a review of performance management is not included in the IA plan as it is considered too wide a remit to be able to complete.</li> <li>• The HIA commented that ASQ responses are difficult to obtain. Common methods of improving response rates include:               <ol style="list-style-type: none"> <li>1. issuing the questionnaire very promptly (i.e. with the final report),</li> <li>2. using a senior manager's email address to issue the questionnaire (to demonstrate the importance of a request),</li> <li>3. explaining in the covering email that the re-</li> </ol> </li> </ul>	X			<p><b>R11</b> Liaison with external audit should be strengthened.</p> <p><b>R12</b> Performance management systems are a key component of internal control. Consideration should be given to cyclically auditing the performance management arrangements of individual directorates, if an overall review is considered too large an undertaking. A risk based approach to determining the most suitable areas for review should be adopted.</p> <p><b>R13</b> ASQs are valuable in measuring the effectiveness of the service and motivating IA staff. Efforts should be made to improve the current level of client feedback by adopting the following strategies:</p>

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
	<p>sponse will only take a short time to respond (e.g. 1 minute),</p> <ol style="list-style-type: none"> <li>4. Using multiple choice rather than free text,</li> <li>5. following up promptly where returns have not been made,</li> <li>6. responding to replies very promptly to demonstrate that feedback is valued,</li> </ol> <p>Items 5 &amp; 6 are presently not followed by LBL Internal Audit. Response rates may improve if these additional points are followed.</p>				<ul style="list-style-type: none"> <li>• following up promptly where returns have not been made,</li> <li>• responding to replies very promptly to demonstrate that feedback is valued,</li> </ul>
4.2	<p><b>2100 Nature of Work</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.3	<p><b>2200 Engagement Planning</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.4	<p><b>2300 Performing the Engagement</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.5	<p><b>2400 Communicating Results</b></p>				

Ref	Conformance with the Performance standards	Y	P	N	Recommendations
	<p>Evidence has been provided to demonstrate compliance</p> <p><u>Observation</u> The HIA commented that ASQ responses are difficult to obtain</p> <p>KPIs were not developed/ reported upon in 2015/16 due to restructuring issues relating to the creation of an in-house work force.</p>	X			<p>See <b>R13</b></p> <p><b>R14</b> Once the in house team is appointed KPIs should be developed.</p>
4.6	<p><b>2500 Monitoring Progress</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			
4.7	<p><b>2600 Communicating the Acceptance of Risks</b></p> <p>Evidence has been provided to demonstrate compliance</p>	X			

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# Internal Audit Charter

## 2016-2017

Last Reviewed: March 2016  
Next Review : March 2017  
V2

## 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 14, 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 2016/17, 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 the 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.

### Internal Audit Definition

- 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)**

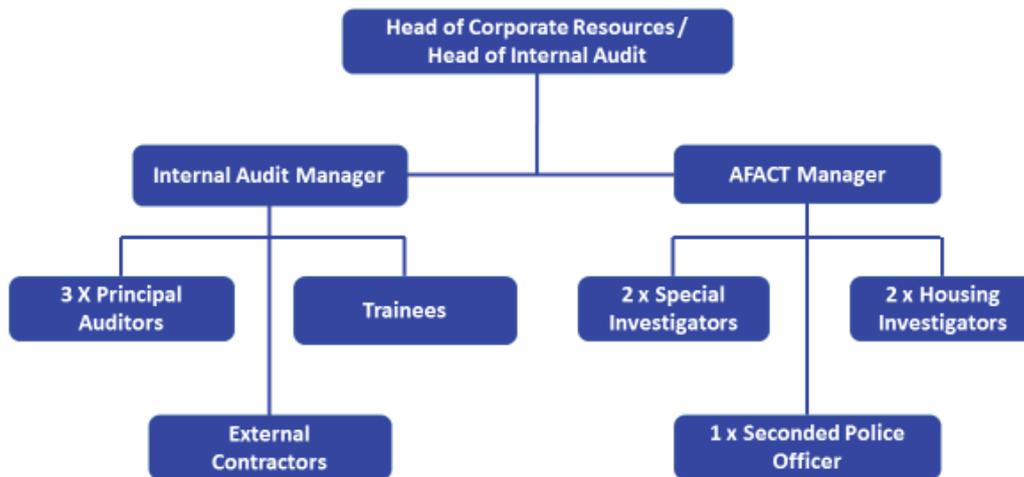
- 2.5. This role is fulfilled by the Executive Director for Resources and Regeneration. The CIPFA Statement on the Role of the CFO in Local Government states that they "must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all 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 2016/17, the internal audit service is recruiting to have a small in-house team, starting with three Principal Auditors (see structure chart below). When available, trainees from around the council will join internal audit team for short periods of time throughout the year. The AFACT structure chart as at 31/03/16.



**Senior Management Structure**

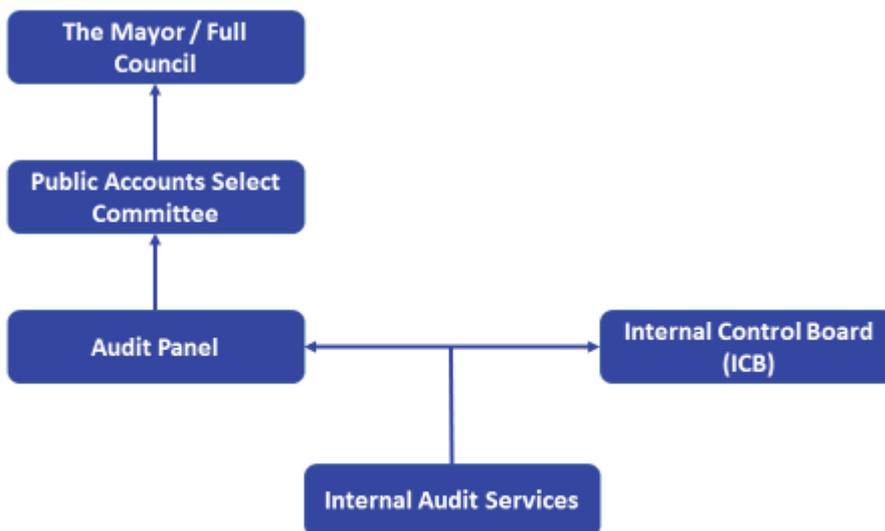
3.3. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council. The Council’s senior management structure charts can be accessed via the link below. <http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/Pages/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.  
<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Pages/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
  - Managements engagement with internal audit
  - 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 and ICB, please refer to the link below to the Council's Constitution.

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/Documents/Constitution%20June%202015%20MASTER%2008%2009%2015.pdf>

### 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 reports to external audit and are available to them to view if required.

## 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)
  - Royal Borough of Greenwich conducting some of the school audits, and
  - Pertinax Consulting Ltd (IT auditor).

#### 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. 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**

5.10. The audit plan for 2016/17 consists of 973 productive days and 95 full audit reviews. It is broken down as follows

- Core Financial Audits – 244 days / 17 audits
- IT Audits – 69 days / 9 audits
- Contract Type audits – 89 days / 7 audits
- Grant certification – 6 days / 1 report
- General (corporate) Audits 375 days / 34 audits, and
- School audits – 136 days / 27 audits.

5.11. The remaining 54 days represent time following up on previous audits. In addition, there is a contingency of 30 days where we can purchase internal audit services if required.

5.12. 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)**

5.13. The team is made up of five full time permanent staff and a seconded police officer. The team's main areas of work are Housing investigations, Special Investigations and fraud awareness training.

5.14. 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**

5.15. Internal audit reports to ICB and the Audit Panel on a quarterly basis.

5.16. Annually, internal audit reports to the Schools' Forum on the schools' audit plan and control issues found during the year.

#### **Annual Assurance Report**

5.17. 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**

5.18. 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 made, including the expected date of implementation of recommendations and officer responsible for implementing them.

### Types of Work Conducted

#### **Assurance Review**

- 5.19. 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. Internal audit follows-up on any audits with High or Medium recommendations made, normally after nine months from the final report. For Assurance reviews, internal audit report by exception, which means we only 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**

- 5.20. 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. Internal audit follows-up on any audits with High or Medium recommendations made, normally after nine months from the final report.
- 5.21. Consultancy reviews make up a small part of the audit plan. Where management request a large consultancy review the Audit Panel would need to approve the request before the work is committed to.

#### **Advice**

- 5.22. 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.
- 5.23. 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**

- 5.24. 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. Any recommendations to management are not normally monitored or followed-up by internal audit.

### Authorisation and Management Responsibilities

#### **Authorisation**

- 5.25. 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.

- 5.26. 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

- 5.27. 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](mailto: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 – [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk)

Internal Contract Audit Manager – [julie.hetherington@lewisham.gov.uk](mailto:julie.hetherington@lewisham.gov.uk)

A-FACT Manager – [carol.owen@lewisham.gov.uk](mailto:carol.owen@lewisham.gov.uk)

- 7.2. Charter Approved by Audit Panel on : June 16 (TBC)

- 7.3. Next Review : March 2017

**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

# Agenda Item 9

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: June 2016

## 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) in the last period.

## 2. Recommendations

- 2.1. It is recommended that the Audit Panel note this report for information.

## 3. Special Investigations

- 3.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Summary of Special Investigations work	2015/16	2014/15	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f	45	30	15	50%	30	41
New	102	97	5	5%	97	79
Closed	-136	-82	54	66%	-82	-91
c/f	11	45	-34	-76%	45	30
Of which						
E'ee cases	17	19	-2	-11%	19	27
- resulting in action	10	10	0	0%	10	16
Other cases	119	63	56	89%	63	64
- resulting in action	27	31	-4	-13%	31	22

- 3.2. "Other Cases" include applications for support by those who have No Recourse to Public Funds and claims for Direct Payments for Care as well as other non employee related fraud and enquiries to assist other organisations or Boroughs with their investigations. In the last quarter the section has concluded 35 cases including.

- Two successful prosecutions for the misuse of blue badges for disabled parking.
- Proved that fraudulent transaction was not linked to Lewisham Council as alleged by a resident.
- Provided evidence to stop one No Recourse to Public Funds case and provided evidence to defend decisions for two judicial reviews.

### Employee Related cases

- 3.3. Of the 137 cases closed this year 17 related to employees and 10 of these resulted in action. These cases are included in the year to date figures shown below.

Analysis of employee fraud	2015/16	2014/15	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
Dismissed/resigned & Convicted	0	0	0	0%	0	1
Convicted & recommended disc. Action	0	2	-2	0%	2	5
Resigned/Dismissed incl agency staff	4	1	3	300%	1	6
Other disciplinary (incl not employed)	3	2	1	200%	2	0
Monies repaid	0	2	-2	0%	2	2
Management action	2	2	0	0%	2	2
Identity issue cleared	1	1	0	0%	1	0
Total	10	10	0	0%	10	16

- 3.4. The cases concluded in the last period include
- Management action regarding time keeping irregularities
  - Employee failed to declare partners interest in a company. Declaration of interest now completed. No further action taken as no evidence of gain.
- 3.5. A new Case Management System was introduced in March. This has provided an opportunity to review all cases and as a result a large number of cases have been closed prior to year end.
- 3.6. Quarterly reports continue to be issued to each Executive Director with a summary of all cases being dealt with by Special Investigations in their Directorate. This ensures that the risk of fraud is considered in the context of the demands of the service, priorities are agreed, and progress on investigations communicated.

### Lewisham Homes

- 3.7. A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement which has now been extended for 2016/17. This is just under one full time equivalent member of staff and a proportion of the police officer's time. The outcome of these investigations is reported by Lewisham Homes to their Audit Committee.

### Pre-employment Checks

- 3.8. 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 benefits, council tax, rent and

personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward.

Summary of pre-employment checks	2015/16	2014/15	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
Checks completed	317	270	47	17%	270	274
Action taken	35	25	10	40%	25	20

- 3.9. The seven cases in the last three months that were flagged for further action all related to potential employees having either business interests or secondary employment. In all cases it was possible for employment to be confirmed once the line manager confirmed that there were no conflicts of interest.

#### 4 Housing Investigations

Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Summary of Housing App Investigations	2015/16	2014/15	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f	19	38	-19	-50%	38	76
New	28	46	-18	-39%	46	67
Closed	46	65	-29	-29%	-65	-107
c/f	1	19	-18	-95%	19	36
Resulting in action	25	42	-17	-40%	42	50

- 5.1 There have been 25 successful cases this year. These relate to 21 Housing Register applications/Homelessness applications, 2 fraudulent decant, and 2 fraudulent Right to Buy applications being stopped.
- 5.2 The reduction in results is due in the main to officer time being used on chargeable work for Lewisham Homes which has focused more on customer fraud than internal issues in 15/16.
- 5.3 The Audit Commission have stated that there is a significant value associated with recovering tenancies and preventing fraudulent applicants from being housed. They estimate that the average cost of temporary accommodation for a family for a year is £18,000. On this basis A-FACT have either recovered and prevented tenancies being wrongly allocated in 23 cases, representing a saving of £414,000, plus ensuring that two fraudulent Right to Buys (maximum discount £103,900 each) were cancelled.

#### 6 DCLG Housing Bid funding

- 6.1 Since January 2012 the DCLG have funded an investigator based within A-FACT to work with local housing partners to tackle fraud related to social housing. This has recently been extended by a further grant to cover 2016/17.

- 6.2 In the last year 16 properties have been recovered from this work. Lewisham has nomination rights on these properties. There are also a number of cases of ongoing cases.

Summary of DCLG Housing Investigations work	2015/16	2014/15	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f	176	33	143	433%	33	9
New	76	269	-193	-72%	269	111
Closed	246	126	120	95%	-126	-83
c/f	6	176	-170	-97%	176	37
Tenancies recovered	16	38	-22	-58%	38	33
Breakdown by RSL						
L & Q	2	20	-18	-90%	20	19
Pinnacle	9	10	-1	-10%	10	6
Brockley Co-Op	2	1	1	200%	1	4
Lewisham Homes	0	3	-3	-100%	3	2
Hexagon	3	3	0	0%	3	1
Family Mosaic	0	1	-1	-100%	1	1

- 6.3 In one case where the tenant had died three siblings made separate attempts to apply for the succession. A-FACT was able to prove that two had their own tenancies in other boroughs and the third was actually living in temp stay accommodation provided by Lewisham. Following a court hearing outright possession was granted.
- 6.4 As with the point made at 5.2 above, the work with Lewisham Homes has moved to focus more on customer rather than internal cases in the last year. This has drawn in more housing investigator time with some ten tenancies recovered for Lewisham Homes rather than in the numbers above. In the round this work is all contributing to clamping down on fraud in Lewisham and recovering tenancies for the Council. Looking forward we are currently recruiting further investigators to ensure we push forward on both fronts.
- 6.5 On the basis of the Audit Commission figures for the value of social housing as detailed in para 5.3. The recovery of 16 tenancies equates to £288,000.

## 7 Local Government Transparency Code 2014

- 7.1 The Local Government Transparency Code requires all local authorities to publish data on it's anti-fraud arrangements on at least an annual basis.
- 7.2 The data for 2015/16 is shown along with the two previous years for comparison.

Data required	2013/14	2014/15	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.	Nil	Nil	1

Data required	2013/14	2014/15	2015/16
Total number of employees undertaking investigations and prosecutions of fraud	10	10	7
Total number of professionally accredited counter fraud specialists	8	8	6
Total amount spent by the authority on the investigation and prosecution of fraud	£491,108	£492,506	£336,153
Total number of cases investigated	503	637	428

## 8 Publicity

8.1 There have not been any cases suitable for publication in this last period.

## 9 Fraud Awareness Training

9.1 In this period A-FACT have delivered a Fraud Awareness Session to Southern Housing Group. This was delivered on a chargeable basis.

## 10 Metropolitan Police Seconded

10.1 Detective Constable Norris is on secondment to A-FACT from the Metropolitan Police. As Lewisham A-FACT have become more proficient in securing prosecutions, we have started to uncover more sophisticated frauds which require the powers of arrest and search in order to be addressed effectively. The Police Seconded continues to enable the team to deal with cases that we wouldn't otherwise be able to progress.

## 11 Legal Implications

11.1 There are no legal implications arising directly from this report.

## 12 Financial Implications

12.1 There are no financial implications arising directly from this report.

## 13 Equalities Implication

13.1 There are no specific equalities implications arising directly from this report.

## 14 Crime and Disorder Implications

14.1 There are no crime or disorder implications arising directly from this report

## 15 Environmental Implications

15.1 There are no specific environmental implications arising directly from this report.

## 16 Background Papers

16.1 There are no background papers reported.

If there are any queries on this report, please contact

David Austin at [david.austin@lewisham.gov.uk](mailto:david.austin@lewisham.gov.uk) or on 020 8314 9114, or

Carol Owen at [carol.owen@lewisham.gov.uk](mailto:carol.owen@lewisham.gov.uk) or on 020 8314 7909