



AGENDA AUDIT PANEL

Date: TUESDAY, 20 JUNE 2017 at 7.00 pm

**Council Chamber
Civic Suite
Lewisham Town Hall
London SE6 4RU**

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

COUNCILLORS

Councillor Jonathan Slater (Chair)
Councillor Helen Klier (Vice-Chair)
Councillor Mark Ingleby
Councillor Joyce Jacca
Councillor Maja Hilton
Councillor Susan Wise

Independent Members

Paul Dale
Ian Pleace
Stephen Warren

Members are summoned to attend this meeting

**Barry Quirk
Chief Executive
Lewisham Town Hall
Catford
London SE6 4RU
Date: 12 June 2017**



INVESTOR IN PEOPLE

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

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Agenda Item 1

AUDIT PANEL		
Report Title	ELECTION OF CHAIR AND VICE CHAIR	
Key Decision		Item No. 1
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 20 June 2017

Recommendation

It is recommended that a Chair and Vice Chair of the Audit Panel be appointed for the municipal year 2017/18

Agenda Item 2

AUDIT PANEL		
Report Title	MINUTES	
Key Decision		Item No. 2
Ward		
Contributors	CHIEF EXECUTIVE	
Class	Part 1	Date: 20 June 2017

Recommendation

It is recommended that the Minutes of the meeting of the Audit Panel, which was open to the press and public, held on 21 March 2017 be confirmed and signed.

MINUTES OF THE AUDIT PANEL

Tuesday, 21 March 2017 at 7.00 pm

PRESENT: Councillors Jonathan Slater (Chair), Helen Klier (Vice-Chair), Bill Brown, and Mark Ingleby, Ian Pleace and Stephen Warren

Apologies for absence were received from Councillor Chris Barnham and Paul Dale

21. Minutes

Action - Minutes 13 - External Auditor's Reports on 2015/16 Accounts

The Head of Corporate Resources informed Panel Members that as part of their efforts to look at alternative ways of recruiting additional resources, officers were looking at incorporating CIPFA trainees into the Apprenticeship Scheme through the accreditation process. He also informed them that interviews had taken place for two positions in the finance section. As a result offers had been made to these positions. He said these positions would help to support work in the section.

Action - Minutes 14 – Internal Audit Update

The Head of Corporate Resources said the segregation of duties update had been incorporated within the Internal Audit Update report.

Action - Minutes 18 - External Audit Letter 2015/16

Darren Wells informed the Panel that Grant Thornton had done some helpful publications on income generation and he would be happy to send a copy to Councillor Ingleby.

Action - Minutes 18 - External Audit Letter 2015/16

The Head of Corporate Resources told members that with the assistance of Grant Thornton a joint training session for officers was held 2 weeks ago. He said all officers were now acquainted with the new closedown process, and validity of closedown plans were in progress and the Council was set to go.

The Acting Group Finance Manger – Core Accounting informed Panel Members that officers specifically focussed on some of the key issues from past experience, and review and research work had been done to address these. He said officers would ensure records are good and would try to improve on everyday work. Panel Members were told the deadlines for this year would be similar to last year's, if there were any delays it would be because of quality issues. It was also noted that an experienced member of staff had been added to the team.

RESOLVED that the minutes of the meeting held on 6 December 2016 that was open to the press and public be confirmed as an accurate record subject to the following amendments;

Minutes 18 paragraph 1 delete second sentence.

Paragraph 4, first sentence to read “Councillor Ingleby asked if Grant Thornton could provide some useful information on income generation that would be helpful to the Council with its ongoing savings programme”.

Paragraph 6 last sentence to read “The Audit Manager, Grant Thornton said the NHS closedown was in May”.

22. Declarations of Interests

Councillor Ingleby declared a personal non pecuniary interest in item 5 as he had been a victim of a rogue landlord.

23. Update on 2016/17 Closing of Accounts and External Audit

The Acting Group Finance Manager–Core Accounting informed Panel Members that officers were seeking to improve areas where problems were identified last year. He said the interim audit was in progress and no problems had been flagged up to date. He added that the timetable would be the same as last year’s.

Darren Wells, Director, Grant Thornton explained that they looked at 3 stages, the first being risk management and understanding the environment. At the second stage they did early testing, expenditure and income systems. He said key stages and elements were tested to allow earlier closure, and this work was still in progress. He said the rest of the report highlighted some developments in the wider context.

Ian Pleave said if the Panel see the plan at their next meeting in June it would be too late for them to influence the process, as Panel Members had agreed there would be a dry run this year. Stephen Warren said with the deadline being 31 July the template should be with Panel Members at an early stage. Following discussion it was agreed that the internal procedures and approach would be sent to Panel members in May, with the draft statement presented at the June meeting.

Action >>>>> Head of Corporate Resources

Councillor Ingleby asked whether the slide on page 29 of the report showing national developments referred to the investment part of the Pension Board and was told it reflected an accounting standard of last year’s assets and valuation, plus the disclosures made in the pension fund. Darren Wells also explained off-payroll working and salary sacrifice in the public sector in answer to a question from Councillor Ingleby. Darren Wells pointed out that there was a risk element associated with this change.

The Head of Corporate Resources stated that they had already lost 2 of their contractors who were unwilling to take a cut in their salary due to this change. Councillor Brown asked if the Council had a lot of workers on temporary contract and was told although there was a reduction following a review a few years back the numbers have grown recently because of capability shortage. The Head of Corporate Resources said this tend to happen following big changes in organisations.

The Chair said he was aware that the Audit Panel had done a review of consultants working for the Council and was under the impression the numbers had been reduced. He said it would be useful for Panel Members to get an update on the number of Consultants currently working for the Council and the salaries at their next meeting. The Head of Corporate Resources said he was aware that this information may be going to Mayor and Cabinet or Sustainable Development Select Committee as part of the Annual Pay report in June and he would find out.

Councillor Ingleby asked whether this was a threat to the Council, and asked Darren Wells if this trend was the same in other local authorities. Mr Wells said they do not have any data on this at present but he could find out.

Action >>>>> Grant Thornton

The Chair said Audit Panel could revisit this issue to see what was taking place. He said self employment had increased dramatically and it would be good to find out what was happening in the Council.

Action >>>>> Head of Corporate Resources

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

Darren Wells introduced the report. He stated that there had been improvements since previous years but unfortunately the infrastructure was prone to errors. He said this was not significantly different from other local authorities, and constant work was needed to improve the compilation and process.

Mr Pleace asked if the qualifications were the norm and was told by Darren Wells that there was a broad process of testing, wherein the auditors take initial testing of all the cells in the grand scale of things and if there is 1 mistake found, they have to do 40+ testing of that cell and another 40+ of every error type found. He added that this could be very time consuming and this was a requirement of the DWP. Councillor Klier said this was a very rigid process. Stephen Warren commented that there were specified procedures which had to be followed, and DWP were paying the subsidy.

Stephen Warren said he had noted that the Council have qualifications each year and dispose of records every 6 years. He said the Council was taking a risk in disposing these records within 6 years. The Head of Corporate Resources said this was a deliberate choice in terms of their financial records, as they had decided to draw a line, and they then move forward. Mr Warren said as long the decision had been consciously taken he would be satisfied. He asked whether there were electronic records kept and was told there were but they too were disposed of after 6 years.

RESOLVED that the report be noted.

25. Internal Audit Update and Plan

The Head of Corporate Resources introduced the report. He highlighted that officers were 3 weeks behind where they wanted to be but were confident they

would complete the work by end of April, to be ready for the Panel meeting in June. He informed Panel Members that segregation of duties and reconciliations would be included in this update going forward.

The Head of Corporate Resources said follow ups for audit recommendations continued to go well but officers have discovered that some managers were prolonging their work-in-progress phase to delay things. He said there were 4 superseded recommendations which had required the manager to be brought to this meeting but unfortunately the Manager was on holiday. The Head of Resources said this would be follow up for the next meeting.

The Chair asked Mr Pleace and Mr Warren if they knew of anyone that would be interested to fill in the Independent Panel Member vacancy, meanwhile the search would continue.

The Chair said he was concerned about the budget deficits facing Sedgehill and Forest Hill schools, he said with the changes to the national schools funding formula other schools could be at risk. The Chair asked how this was being addressed. The Head of Corporate Resources said this would be discussed at the Schools Forum and it has been included in the Public Accounts Select Committee Work programme for the next municipal year.

The Head of Corporate Resources said the Council had strengthened its budget monitoring for schools. He added that although the Council could put in sanctions as a last resort, accountability lay with the Headteacher and Board of Governors. Councillor Brown said this information had been in the public domain for a while and Councillors were being asked how they had allowed the deficits to happen, and what they intend to do to address the problem.

The Head of Corporate Resources said unfortunately he had not got information on hand to update Panel Members but would do an update to be circulated to Panel Members. Councillor Brown said it would be useful to include information on what Members could have done to avoid this situation. The Head of Corporate Resources said he would do a briefing specifically for Forest Hill school, plus a general overview to be circulated to Panel Members.

Action >>>>> Head of Corporate Resources

Councillor Brown asked how schools get funded, and was told that there were two sections of the education budget, one of them is based on the number of pupils in the school, this budget is currently held centrally by the Council, and the second budget for special aid goes directly to the schools. He said from 2018/19 the new funding formula would be in place and all the money would go directly to the school, the school would then pay for services provided by the Council. The Chair said he had noted that despite control being with the schools when things go wrong the local authority gets blamed.

Mr Pleace said as part of segregation of duties if the supplier access control was not secure then the Council was running a fraud risk. The Head of Corporate Resources said officers could get a systems resolution. He said currently only 5 people could change suppliers details, and managers were trying to keep it as manual segregation.

In response to Councillor Ingleby's question about compliance with the Code of Connection and Public Sector Network, the Head of Corporate Resources explained that because the Council had to meet high level standards set by this code to avoid security risk sometimes the IT system might not look as if it was functioning well, but things were constantly being monitored to avoid hacking.

Councillor Ingleby asked if the Panel could get an update on progress about Houses in Multiple Occupation especially on rogue landlords. He said he had been a victim of a rogue landlord. The Head of Corporate Resources said other Councils had been more successful in this area than Lewisham, as officers had discovered that the persistent offenders were very cunning and knew how to avoid being prosecuted. He said in the end officers had to settle for one of the offenders being named and shamed, which was a step forward.

RESOLVED that the report be noted.

Any Other Business – New Bermondsey CPO

Mr Pleace stated that in connection with the Millwall and Renewal issue which had been consistently in the national press, as Independent Panel Members any aspect of the Council's financial arrangements would be associated with them. He asked for assurance that the Audit Panel had nothing to be worried about, and the appropriate sensible decision had been made. The Chair explained that the Council had agreed to have an Inquiry into the process and up to £1/2m had been put aside to fund this.

Mr Warren asked if the Council would be able to balance the independence of the budget and the person holding the Inquiry. Panel Members requested the Head of Corporate Resources to find out the following:

- i. what controls have the Council put in place to efficiently and effectively manage the cost of the Inquiry.
- ii. what controls have the Council put in place to ensure the cost would lead to an independent Inquiry.

Action >>>>> Head of Corporate Resources

The Chair informed the Panel that this would be Councillor Brown's last Audit Panel meeting. He thanked Councillor Brown for all his work as a Panel Member.

Meeting ended: 8.50pm

Chair.....

Agenda Item 3

AUDIT PANEL		
Report Title	DECLARATIONS OF INTEREST	
Key Decision		Item No. 3
Ward		
Contributors	Chief Executive	
Class	Part 1	Date: 20 June 2017

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 2016/17	
Key Decision	No	Item No. 4
Ward	ALL	
Contributors	Executive Director for Resources and Regeneration	
Class	Part 1	Date: 20 th June 2017

1 SUMMARY AND PURPOSE

- 1.1 This presents the London Borough of Lewisham's Audit Plan for year-ending 31st March 2017. 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 2016/17

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 London Borough of Lewisham

Year ended 31 March 2017

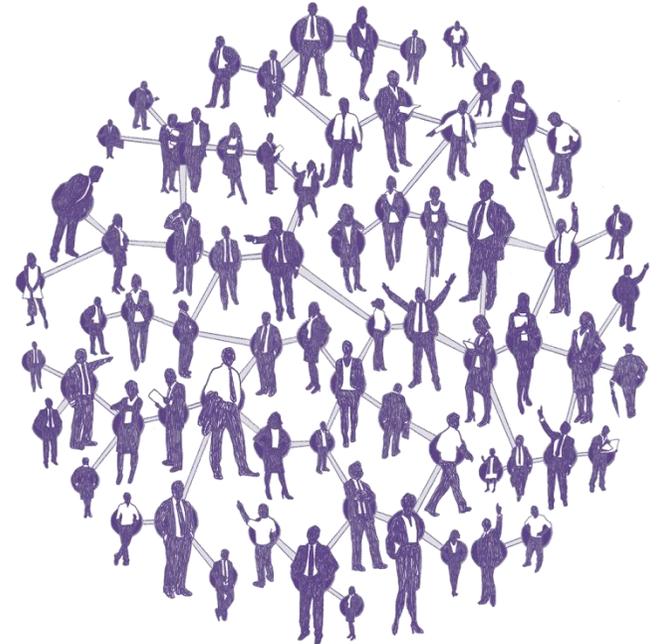
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London Borough of Lewisham
Lewisham Town Hall
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SE6 4RU

April 2017

Dear Members of the Audit Panel

Audit Plan for London Borough of Lewisham for the year ending 31 March 2017

This Audit Plan sets out for the benefit of the Audit Panel, 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 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 which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Darren Wells

Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Highways network asset (HNA)

CIPFA/LASAAC has announced it is not now proceeding with previous plans for measuring the Highways Network Asset at Depreciated Replacement Cost in local authority financial statements.

This followed feedback from the sector and difficulties obtaining central rates for valuations.

Regeneration of Bermondsey

The Council has received significant adverse publicity over the planned compulsory purchase and regeneration of land in South Bermondsey, around Millwall football club. The Council is carrying out an independent inquiry.

We will consider this issue as part of our value for money conclusion.

Integration with health sector

Wider transfers of responsibility for public health to local government, and more specifically Better Care Fund (BCF) plans and the associated pooled budgets have been operational since 2015/16.

Key challenges

Autumn Statement

The Chancellor detailed plans in the Autumn Statement to increase funding for Housing and Infrastructure, and further extend devolved powers to Local Authorities.

The spring budget in March 2017 set out £2 billion additional funding for social care in England.

Saving Plans

The Council continues to face a challenging financial environment. £23.2 million of savings are included in the 2017/18 budget, with a further £32.6 million required in 2018/19 and 2019/20.

We will monitor the Council's plans to develop its Medium Term Financial Plan as part of our value for money conclusion work.

Group accounts

In prior periods Mayor & Cabinet agreed that in order to increase the supply of quality, in-borough temporary accommodation loans would be extended to Lewisham Homes to enable it to purchase properties on the open market for use as temporary accommodation and to prevent homelessness. As of August 2016, Lewisham Homes has acquired 57 properties with this loan and due to the success of the programme, officers are now recommending further loans.

Lewisham Homes is a 100% owned subsidiary and the Council is intending to prepare group accounts for 2016/17 as a result of this change in service provision.

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

Changes to the Code in 2016/17 reflect aims of the 'Telling the Story' project, to streamline the financial statements to be more in line with internal organisational reporting and improve accessibility to the reader of the financial statements.

The changes affect the presentation of the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements and segmental reporting disclosures. A new Expenditure and Funding Analysis note has also been introduced.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year.

The Council is well aware of the changes and made good progress last year to meet this objective. For 2016/17 the Council has been working on achieving further efficiencies in the closedown process.

We have been in discussion with the Council about early closedown since 2015/16 and we have given a presentation to the finance team about audit and closedown. We plan to complete our audit work by 31 July.

Our response

- We aim to complete all our substantive audit work of your financial statements by 28 July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the financial reporting changes in the 2016/17 Code
- We will keep you informed of changes to the financial reporting requirements for 2016/17 through on-going discussions and invitations to our technical update workshops.

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Council. In line with previous years, we have calculated financial statements materiality based on a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit we have determined overall materiality to be £20,389k (being 1.75% of gross revenue expenditure). In the previous year, we determined materiality to be £18,559k (being 1.75% of planned gross revenue expenditure). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

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 £1,019k.

ISA 450 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	All transactions made by the Council affect the balance and it is therefore considered to be material by nature.	£1,000k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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 Lewisham Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Lewisham Council, mean that all forms of fraud are seen as unacceptable <p>Therefore do not consider this to be a significant risk for Lewisham Council.</p>
Management over-ride of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Reviewed journal entry processes and selected in year journals for testing back to supporting documentation. <p>Work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management. • Year end selection of unusual journal entries for testing back to supporting documentation. • Review of unusual significant transactions.

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
<p>Valuation of property, plant and equipment</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 19</p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate. • Review of the competence, expertise and objectivity of any management experts used. • Review of the instructions issued to valuation experts and the scope of their work • Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions. • Review and challenge of the information used by the valuer to ensure it is robust and consistent with our understanding. • Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register • 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.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
<p>Operating expenses</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 20</p>	<p>Year end creditors and accruals are understated or not recorded in the correct period.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of your controls in place over operating expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of the year-end reconciliation of your accounts payable system to the general ledger • Testing of year-end creditors and accruals • Testing of post-year end payments
<p>Employee remuneration</p>	<p>Employee remuneration accruals are understated</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Walkthrough of your controls in place over payroll expenditure <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of the year-end reconciliation of your payroll system to the general ledger • Trend analysis of the monthly payroll runs from during the year • Other substantive testing as appropriate

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Other risks	Description of risk	Audit procedures
<p>Valuation of pension fund net liability</p>	<p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p>	<p>Work planned:</p> <ul style="list-style-type: none"> • 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. • 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. • We will undertake procedures to confirm the reasonableness of the actuarial assumptions made. • 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.

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

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 sections but will include:

- Cash and cash equivalents
- Trade and other receivables
- Borrowings and other liabilities (long and short term)
- Useable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Housing benefits payments
- Taxation and non-specific grants
- New note disclosures
- 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

Group audit scope and risk assessment

In accordance with ISA (UK and Ireland) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Components	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
Lewisham Council	Yes	Comprehensive	<ul style="list-style-type: none"> - Management over-ride of controls (page 6) - Valuation of property, plant and equipment (page 7) - Employee remuneration (page 8) - Operating expenses (page 8) - Valuation of pension fund net liability (page 9) 	Full scope UK statutory audit performed by Grant Thornton UK
Lewisham Homes Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK. We will consider targeted procedures on the material balance of Property Plant and Equipment, focussing on valuation.
Catford Regeneration Partnership Limited	No	Analytical	N/A	Desktop review performed by Grant Thornton UK.

Key changes within the group:

- Lewisham Homes Limited has received funding from the Council, purchasing housing for the Councils temporary accommodation requirements. The Council is now preparing group accounts due to the significance of this change in services.

Audit scope:

Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required

Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit

Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Involvement in the work of component auditors

The nature, time and extent of our involvement in the work of the company audits will begin with a discussion on risks, guidance on designing procedures, participation in meetings, followed by the review of relevant aspects of the company audit documentation and meeting with appropriate members of management.

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 National Audit Office (NAO) issued its guidance for auditors on value for money work for 2016/17 in November 2016. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance identifies one single criterion for auditors to evaluate:

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

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

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

Value for Money (continued)

Risk assessment

We have carried out an initial risk assessment based on the NAO's auditor's guidance note (AGN03). In our initial risk assessment, we have considered:

- 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.

Overleaf we have included a planning document setting out our planned work for 2016/17 to meet our duties in respect of the VfM conclusion. This includes the significant risks we have identified, along with details of the work we plan to carry out to address these risks.

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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.

Value for money (continued)

We set out below the significant risks we have identified as a result of our initial risk assessment and the work we propose to address these risks.

Significant risk	Links to sub-criteria	Work to address
<p>The Council reported a forecast outturn of a £11.6 million overspend to the January meeting of the Public Accounts Committee. There is a risk that in year financial management is not adequate to deliver a sustainable financial position.</p>	<p>This links to the following sub –criteria</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>We will update our understanding of the pressures affecting the 2016/17 budget. We will consider whether the Council has adequate arrangements to manage those pressures and to secure a sustainable financial position. We will consider the Council's approach towards use of reserves.</p>
<p>The budget for 2017/18 includes savings of £23.2 million. This is a significant challenge following on from savings already made.</p>	<p>This links to the following sub –criteria</p> <p>Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</p>	<p>We will consider and report on the Council's arrangements to identify and deliver efficiencies towards a sustainable medium term financial position.</p> <p>As part of this we will update our understanding of how the Council is working with partners in the local health economy to achieve savings from health and social care integration.</p>
<p>There has been extensive reporting and public interest around the planned redevelopment at New Bermondsey for which the Council is seeking an independent review. Allegations of poor governance have been levelled at senior politicians and senior officers.</p>	<p>This links to the following sub –criteria</p> <p>Informed decision making: Acting in the public interest, through demonstrating and applying the principles and values of sound governance</p>	<p>We will update our understanding of this development and any emerging findings from the review. We will consider whether any issues regarding the Council's governance and decision making are a risk to the Council's arrangements to secure economy, efficiency and effectiveness.</p>

Other audit responsibilities

In addition to our responsibilities under the Code of Practice in relation to your financial statements and arrangements for economy, efficiency and effectiveness we have a number of other audit responsibilities, as follows:

- We will undertake work to satisfy ourselves that the disclosures made in your Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
 - We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
 - We will carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
 - We consider our other duties under the Act and the Code, as and when required, including:
 - We will give electors the opportunity to raise questions about your financial statements and consider and decide upon any objections received in relation to the financial statements;
 - issue of a report in the public interest; and
 - making a written recommendation to the Council, copied to the Secretary of State
- We certify completion of our audit.

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
<p>Internal audit</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 28</p>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p> <p>We remain mindful of the control weaknesses raised by internal audit and in the Head of Internal Audit opinion during 2015/16, particularly in relation to the accounts payable system which received a "no assurance" opinion in 2015/16 and limited assurance in 2016/17. To mitigate this risk we intend to increase our testing of expenditure, with a focus on the robustness of the supporting evidence on payments.</p>
<p>Entity level controls</p>	<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"> • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices 	<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)

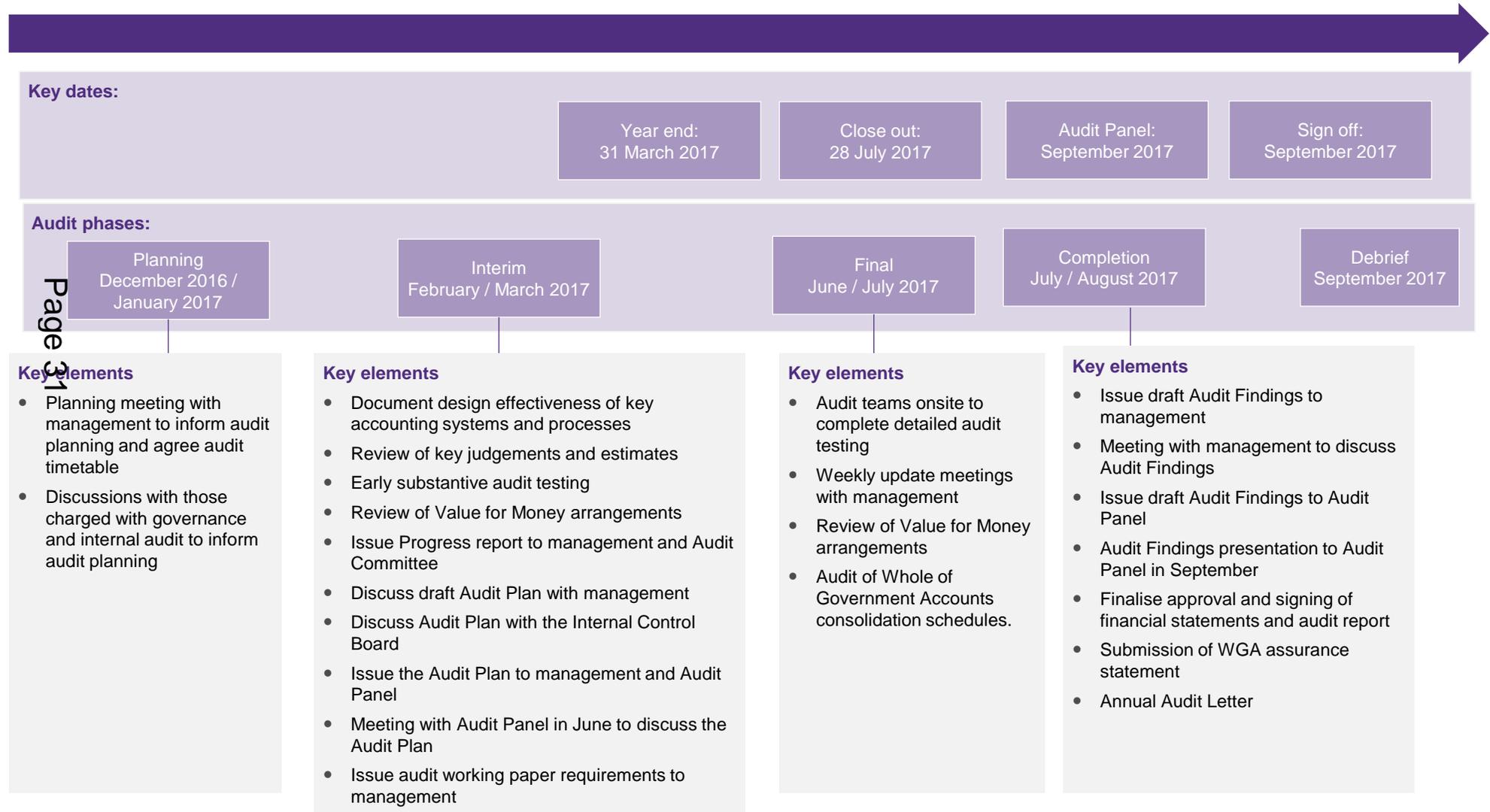
	Work performed	Conclusion
<p>Walkthrough testing</p> <p>Page 29</p>	<p>We have substantially completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work to date has not identified 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"> -Employee remuneration (Completed) -Operating expenses (Completed) -PPE valuations (Completed) -Valuation of pension fund (planned) 	<p>Our work to date has not identified any weaknesses which impact on our audit approach.</p>
<p>Journal entry controls</p>	<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 and tested samples of Journal transactions recorded for the year to date.</p>	<p>Our work to date has not identified any material weaknesses in the policies and procedures determining Journals which are likely to adversely impact on the Council's financial statements.</p>

Results of interim audit work (continued)

	Work performed	Conclusion
Review of information technology controls	<p>Our information systems specialist is perform a high level review of the general IT control environment, as part of the overall review of the internal controls system.</p> <p>This review focusses on the controls in place at the council and on the interface with the shared service provider.</p>	Work is ongoing. We will report the results of this review in our audit findings report.
Early substantive testing	<p>We have selected a sample of Payroll transactions recorded for the first ten months of the financial year and will complete the testing at our next interim visit.</p> <p>Also prior to the production of the financial statements we are carrying out testing to reduce the burden at the year end. The testing consists of:</p> <ul style="list-style-type: none"> - The restatement of 'Telling the Story' project, and the changes to the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statements etc. - Payroll transactions to month 11 - Income transactions to month 11 - Expenditure transactions to month 11 - Journals to month 11 	No significant issues have arisen from our early work to date.

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Council audit	193,233
Grant Certification	41,235
Total audit fees (excluding VAT)	234,468

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the client on 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

Fees for other services detailed on the following page, 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.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Feed back on your systems and processes, and identifying potential risks
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Regular sector updates
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency
- Annual technical updates for members of your finance team
- Regular Audit Committee Progress Reports

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence.

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Client Name. The following audit related and non-audit services were identified for the Council for 2016/17:

Fees for other services

Service	Fees £	Planned outputs
Audit related		
Certification of Teachers' Pensions return	6,000	Reasonable assurance report.
Certification of Capital Pooling Return	3,000	Reasonable assurance report.
Non-audit related		
Place analytics service	26,000	Three year subscription to place analytics software and support

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

The above services are consistent with the Council's policy on the allocation of non-audit work to your auditors.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 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

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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	✓	✓
Matters in relation to the group audit, including: Scope of work on components, limitations of scope on the group audit, fraud or suspected fraud.	✓	✓

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Agenda Item 5

AUDIT PANEL		
Report Title	Audit Plan 2016/17 – Pension Fund	
Key Decision	No	Item No. 5
Ward	ALL	
Contributors	Executive Director for Resources and Regeneration	
Class	Part 1	Date: 20 th June 2017

1 SUMMARY AND PURPOSE

- 1.1 This presents the London Borough of Lewisham's Pension Fund Audit Plan for year-ending 31st March 2017. 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 2016/17

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 London Borough of Lewisham Pension Fund

Year ended 31 March 2017

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London Borough of Lewisham Pension Fund
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London, SE6 4RU

April 2017

Dear Members of the Audit Panel

Grant Thornton UK LLP
The Explorer Building
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Crawley
West Sussex RH10 9GT

www.grant-thornton.co.uk

Audit Plan for London Borough of Lewisham Pension Fund for the year ending 31 March 2017

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 Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with 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.

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 which give a true and fair view.

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 planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. 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.

We look forward to working with you during the course of the audit.

Yours sincerely

Darren Wells
Engagement Lead

Chartered Accountants

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Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

Triennial actuarial valuation of the fund

The fund is obtaining a new triennial review in 2016/17. Members will need to consider the outcome of this review and the impact this will have on the fund in future investment decisions. As part of our audit we will confirm the valuation is correctly recorded in the financial statements.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. London councils are developing a Collective Investment Vehicle (CIV) and the impact of this on Lewisham's funds is still being assessed. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although some operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

Key performance measures

Measure	Value
Net assets under management	£1,041million
Total membership	23,253
Number of employers	23

Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications, and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

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 concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £10,414k (being 1% of net assets). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

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

Balance/transaction/disclosure	Explanation	Materiality level
Cash	Material by nature	£500k

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; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams 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"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Lewisham Council, mean that all forms of fraud are seen as unacceptable <p>Therefore we do not consider this to be a significant risk for the Pension Fund.</p>
Management override of controls	<p>Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>Work completed to date:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of journal entry process and selection of unusual journal entries for testing back to supporting documentation <p>Further work planned:</p> <ul style="list-style-type: none"> • Review of accounting estimates, judgments and decisions made by management • Review of any unusual significant transactions • Update our testing of unusual journal entries

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either 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 (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to date and the work we plan to address these risks.

Significant risk	Description	Audit procedures
Level 3 Investments Valuation is incorrect	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	Work planned: <ul style="list-style-type: none">• We are performing walkthrough tests of the controls identified in the process.• 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 31st March with reference to known movements in the intervening period.• 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.

Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Values – level 2 investments	Valuation is incorrect (Valuation net)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on investments <p>Further work planned:</p> <ul style="list-style-type: none"> 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
Investment purchases and sales	Investment activity not valid. (Valuation Gross)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on investments <p>Further work planned:</p> <ul style="list-style-type: none"> 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
Contributions	Recorded contributions not correct (Occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on Contributions <p>Further work planned:</p> <ul style="list-style-type: none"> Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.

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Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Member Data	Member data not correct. (Rights and Obligations)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on Member Data <p>Further work planned:</p> <ul style="list-style-type: none"> Sample testing of changes to member data made during the year to source documentation
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>Work completed to date:</p> <ul style="list-style-type: none"> Walkthrough tests of controls on Benefits Payable <p>Further work planned:</p> <ul style="list-style-type: none"> Controls testing over, completeness, accuracy and occurrence of benefit payments, Test a sample of individual pensions in payment by reference to member files. 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.

Other risks identified (continued)

Going concern

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

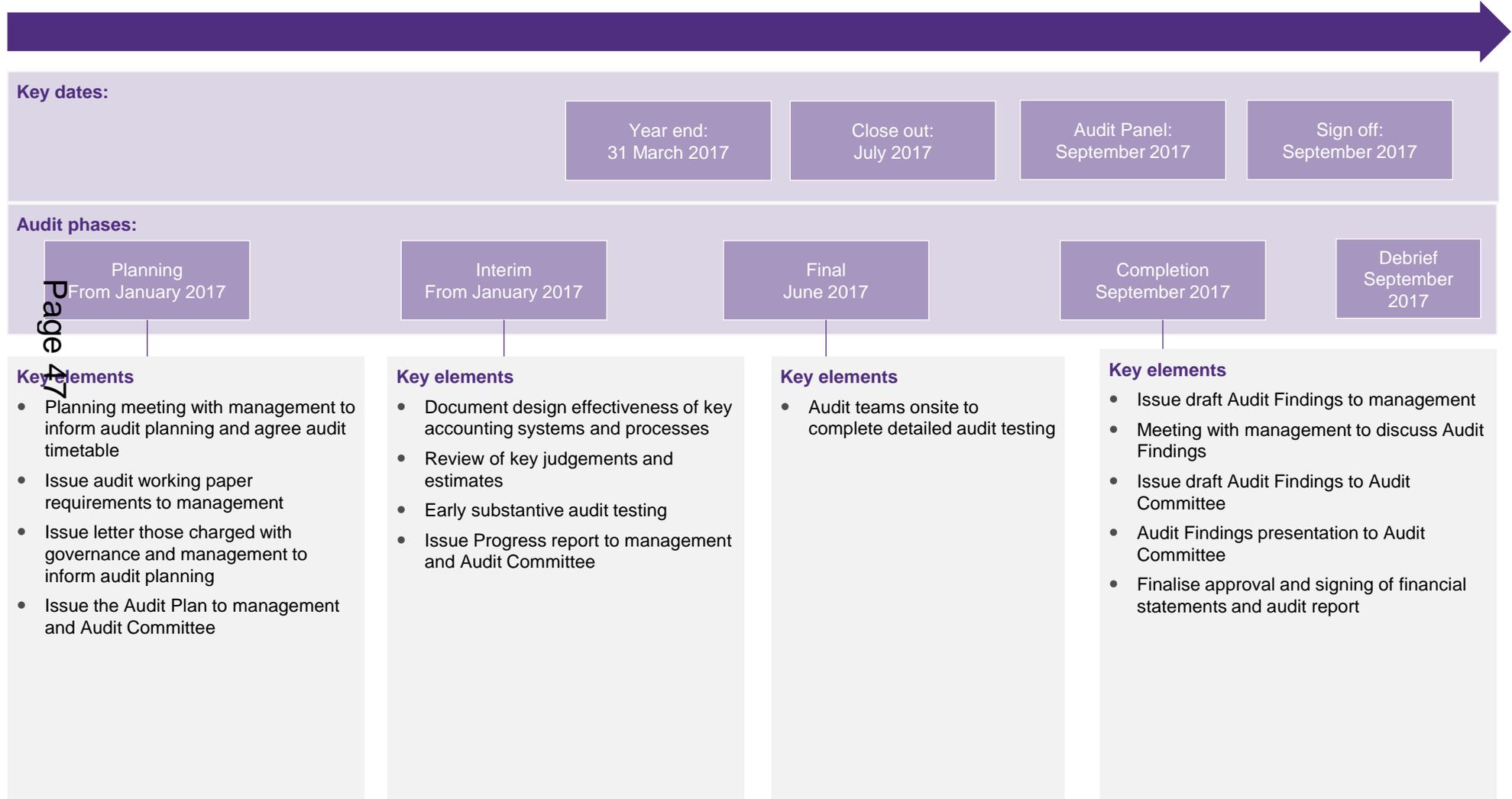
Other material balances and transactions

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 sections but will include:

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

The audit cycle

The audit timeline



Audit Fees

Fees

	£
Pension fund audit	21,000
Total audit fees (excluding VAT)	21,000

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the Fund 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

Fees for other services are detailed on the following page, 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.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

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 we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

We confirm that we have not carried out any other audit related or non audit services at Lewisham Pension Fund.

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) 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 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 Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and 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.

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 Fund'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.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

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	Pre-Audit Statement of Accounts 2016/17 and Annual Governance Statement		
Key Decision	No		Item No. 6
Ward	All		
Contributors	Executive Director for Resources and Regeneration		
Class	Part 1		Date: 20 th June 2017

1 SUMMARY AND PURPOSE

- 1.1 To review and comment on the pre-audit Statement of Accounts for 2016/17 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 2016/17 is attached as Appendix 1 to this report and the draft Annual Governance Statement (AGS) is attached as Appendix 2. The pre-audit Pension Fund accounts are attached as Appendix 3.
- 2.3 The summary of net expenditure against budgets for 2016/17 was reported to Mayor & Cabinet on 7th June 2017.

3 RECOMMENDATION

- 3.1 To note this report and the appended documents.

4 UNDERSTANDING THE ACCOUNTS AND THEIR PREPARATION

- 4.1 The pre-audit accounts have been prepared by officers and were submitted to the external auditors, Grant Thornton on 30th May 2017. This is a month ahead of the official (statutory) deadline, which is the 30th June 2017. The pre-audit Pension Fund accounts will be presented to the Pensions Investment Committee on 22nd June 2017.
- 4.2 As from next year (2017/18) the official deadline for the pre-audit Accounts will be 31st May. Therefore, officers have already demonstrated in 2016/17 (and in last year 2015/16) that they will be able to meet this new requirement.
- 4.3 Within the Statement of Accounts there are four statements which are defined as "core financial statements", which essentially means that they are fundamental to understanding the accounts. A short commentary on each of these is set out below.

Comprehensive Income and Expenditure Statement (CIES)

- 4.4 The CIES sets out the total expenditure by the authority in the 2016/17 financial year, some £1.1bn. Following a change to the Code of Practice, the format of the CIES is now consistent with the Council's management accounts, being based on the Directorate structure. The figures for 2015/16 have been restated to provide a like-for-like comparison.

Movement in Reserves Statement (MiRS)

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

Balance Sheet

- 4.6 The balance sheet reports the 'total equity' of the Council, and shows that it is similar to that of last year, around £1.46bn as at 31st March 2017 compared with £1.41bn as at 31st March 2016.

Cash Flow Statement

- 4.7 The Cash Flow Statement shows the changes in cash and cash equivalents of the Council during the 2016/17 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

- 4.8 Members' attention is also drawn to the following financial statements, which although not technically defined as "core financial statements" are very important to understanding key aspects of local authority services and financing.
- The Housing Revenue Account (HRA) which presents the financial transactions relating to the provision of council housing; and
 - The Collection Fund which presents a summary of the collection of Council Tax and Non-Domestic Rates (NDR).
- 4.9 The accounts also provide substantial detail by way of notes and other statements. In particular, Members may find the following helpful to their understanding of the financial position of the authority:
- Note 1 to the core financial statements – the Expenditure and Funding Analysis, which is a new note for 2016/17 and demonstrates how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates
 - Notes 14 and 16 to the core financial statements, which disclose the debtors to and creditors of the Council as at 31st March 2017
 - Note 9 to the core financial statements, which discloses the level of earmarked revenue reserves and the purposes for which these are held.

- 4.10 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 20th June 2017 to respond to these questions and issued raised. However, given the level of detail contained in the Statement of Accounts it is possible that some questions of detail may not be capable of being fully answered at the meeting. If Members have such questions, they are asked to submit them to paul.calnan@lewisham.gov.uk, ideally at least 24 hours before the meeting.

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 the 2016/17 accounts, it was concluded that full consolidated group accounts were required on the grounds of materiality. The group accounts are an amalgamation of the Council's own 'single entity' accounts with those of our subsidiaries – Lewisham Homes & Catford Regeneration Partnership Ltd. In the previous three years, the Council's interests in these companies had been disclosed in a note to the accounts only – Investment in Companies.

6 FINANCIAL IMPLICATIONS

- 6.1 The accounts are a financial document and present a picture of the Council's activities in 2016/17 and its assets and liabilities as at 31st March 2017. However, there are no financial implications directly arising from the Panel considering the pre-audit accounts.

7 LEGAL IMPLICATIONS

- 7.1 Under the Accounts and Audit Regulations 2015 (the Regulations), local authorities are not required to obtain elected Members' approval of their pre-audit accounts. However, the Regulations do require local authorities to have elected Members, by way either of a duly constituted committee or by the Full Council, to approve the final audited accounts, having considered the auditor's report thereon.
- 7.2 The Regulations also require that the draft accounts are approved for issue by 30th 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 2016/17

Appendix 2 – Annual Governance Statement (AGS) 2016/17

Appendix 3 – Pre-Audit Pension Fund Accounts 2016/17

BACKGROUND PAPERS

Financial Results 2016/17 (Mayor & Cabinet meeting 7th June 2017)

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

2016/ 2017 PRE-AUDIT STATEMENT OF ACCOUNTS

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Narrative Statement

NARRATIVE STATEMENT BY THE EXECUTIVE DIRECTOR FOR RESOURCES AND REGENERATION

1. INTRODUCTION

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

2. THE COUNCIL'S STATEMENT OF ACCOUNTS

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

Section 1 – The Core Financial Statements

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

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation [or rents]. Authorities raise taxation [and rents] to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

Section 1b - Movement in Reserves Statement (MiRS)

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

Section 1c - Balance Sheet

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

Narrative Statement

Section 1d - Cash Flow Statement

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

Section 2 – Statement of Accounting Policies

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

Section 3 – Notes to the Core Financial Statements

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

Section 4 – Housing Revenue Account (HRA)

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

Section 5 – Collection Fund Accounts

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

Section 6 – Group Accounts

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

Section 7 - Glossary

This explains some technical and commonly used terms.

Section 8 – Pension Fund Accounts

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

Section 9 – Annual Governance Statement (AGS)

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

Narrative Statement

3. REVENUE BUDGET**3a 2016/17 Revenue Budget Setting and Funding**

The Council set a net budget requirement of £236.2m for 2016/17 at its meeting on 24th February 2016. This was a decrease of £10.0m or 4.0% on the previous year's net budget requirement of £246.2m.

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.

2016/17 Revenue Budget Funding

	2016/17 £000	2015/16 £000
Lewisham's Net Budget Requirement	236,218	246,224
Less: Settlement Funding Assessment (SFA)	(146,691)	(161,276)
Less: Surplus on Collection Fund	(2,937)	(4,864)
General Fund Services to be met from Council Tax	86,590	80,084
Add: Precept (GLA)	21,674	23,652
Total to be met from Council Tax	108,264	103,736

3b 2016/17 Revenue Budget Outturn

During 2016/17, the overall overspend against the directorates' net controllable budgets was £9.8m. After applying the sum of £2.8m which was set aside in setting the 2016/17 budget for 'risks and other budget pressures', this brought the final directorate overspend down to £7.0m. The reasons for these variances are being reported to the Mayor and Cabinet on the 7th June 2017.

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.

With a new set of challenges in terms of the delivery of revenue budget savings, the council will continue to apply sound financial controls in 2017/18. It is clear that the short and medium-term outlook will remain difficult. However, the Executive Director for Resources and Regeneration will continue to work with directorate management teams across the council to effect the necessary continued actions to manage their services.

3c 2017/18 Revenue Budget Outlook

The Council set a net budget requirement of £232.7m for 2017/18 at its meeting on 22th February 2017, which is £3.5m lower than the equivalent figure for 2016/17. The Council has again made significant savings reductions of £23.0m to its budget and added £13.6m to provide for significant spending pressures which are being experienced and £10.9m to make up for one-off reserves used in 2016/17. An amount of £5.0m is being taken from reserves to fund the budget, but action is also being taken to ensure that expenditure is affordable in future years. The Council is maintaining adequate reserves to enable it to manage the significant funding risks it faces as the national programme of public sector expenditure reduction continues.

Current projections show that additional savings of approximately £32.6m are likely to be required by 2019/20. The Lewisham Future Programme (LFP) was established to carry out cross-cutting and thematic reviews to deliver these savings and their work to date was presented in a report to the Mayor in September 2016. This work continues and further savings proposals will be brought forward in 2017/18 to close the long

Narrative Statement

term budget gap identified above. In 2017/18 officers will update the Medium Term Financial Strategy to 2021/22 to include the impact of moving to the 100% retention of business rates, with its attendant risks.

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 78,528 equivalent Band D properties for 2016/17 (75,526 for 2015/16).

	2016/17 £	2015/16 £	Variation £	Variation %
LB Lewisham's Demand	1,102.66	1,060.35	42.3	4.0
Preceptor Requirements:				
Add: Greater London Authority	276.00	295.00	-19.0	-6.4
Council Tax for Band D	1,378.66	1,355.35	23.3	1.7

4b Council Tax and Non-Domestic Rates Collection Rates

	2016/17 %	2015/16 %	2014/15 %
Council Tax	94.6	94.5	95.1
Non-Domestic Rates	99.4	99.7	99.4

5. CAPITAL PROGRAMME**5a 2016/17 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 84%. A number of budget underspends, mainly on housing schemes, have been carried forward to 2017/18.

	2016/17 Final Outturn £m	2016/17 Budget Report (22 Feb 2017) £m	2015/16 Final Outturn £m
CAPITAL PROGRAMME EXPENDITURE			
General Fund	42.2	48.0	72.1
Housing Revenue Account	28.7	36.8	22.0
Total Spent	70.9	84.8	94.1
CAPITAL PROGRAMME FINANCING			
Borrowing	7.0	4.6	12.6
Capital Grants	18.2	19.3	49.2
Capital Receipts	19.2	27.9	11.6
Capital Expenditure Financed from Revenue	26.5	33.0	20.7
Total Financed	70.9	84.8	94.1

Narrative Statement

The expenditure on major projects in the 2016/17 capital programme was:-

	2016/17 Expenditure £m
Major Projects of over £1m	
General Fund	
Highways & Bridges (incl. TFL programme)	7.9
School Places Programme	6.8
Other schools capital works	3.1
Lewisham Homes - Property Acquisition	6.0
Heathside & Lethbridge Estates	3.2
Building Schools for the Future (Sydenham)	2.3
Acquisition - Hostels Programme	1.4
Housing Revenue Account	
Decent Homes Programme	18.8

5b 2017/18 Capital Programme

The Council set its capital programme budget at its meeting on 22nd February 2017. This outlined the Council's programme of £336.6m for the years 2017/18 to 2020/21. The most significant parts of the programme are primary school expansion and major regeneration schemes, including Heathside and Lethbridge estates and Catford (Broadway and Milford Towers). The implementation of Housing self-financing has given the Council the opportunity to invest in new housing stock under the Housing Matters programme, and achieving and maintaining decent homes will be delivered by the Council's ALMO, Lewisham Homes.

	2017/18 Budget £m
2017/18 Capital Programme	
General Fund	
Primary Places Programme (inc Expansion)	20.6
Highways and Bridges Improvement Works	3.5
Asset Management Programme	3.8
Major Regeneration Schemes	10.1
Other Schemes	7.5
	45.5
Housing Revenue Account	
Housing Matters Programme	41.6
Lewisham Homes	36.4
	78.0
Total Capital Programme	123.5

Narrative Statement

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 31st March 2017. It continues to build reserves up on an annual basis, mainly to ensure that there are sufficient resources available to fund the current 30 year business plan. This aims to continue to invest in decent homes and to significantly increase the supply of housing in the borough over the medium to long term. The business plan is reviewed each year to ensure that the resources available from HRA reserves can be profiled appropriately to meet the business needs.

After transfers to and from reserves the HRA balance at the end of the year, including earmarked reserves, now stands at £97.0m (£80.4m as at 31st March 2016). 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 surplus of £2.0m for the year, which when added to the brought forward deficit of £1.8m gives a surplus of £0.2m to carry forward to 2017/18. The details are shown in the Collection Fund statements in Section 5 of the Accounts.

7. SIGNIFICANT EVENTS IN 2016/17 THAT HAVE HAD AN IMPACT ON THE ACCOUNTS**7(a) Government Funding and Business Rates Retention**

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. There have been continued reductions in funding for local authorities, and there are plans for authorities to become self-financing from Business Rates and Council Tax with no or minimal Revenue Support Grant by 2020/21. The impact of the Brexit vote in June 2016 is still unclear, and so this has added to the uncertainty for local authority funding. The Council used reserves in 2016/17 to balance the budget and will do so again in 2017/18. For 2017/18 this will be on top of raising both the Adult Social Care precept at 3.00% and maximum Council Tax increase without a referendum at 1.99%.

With regard to Business Rates, in 2017 the new valuations from the 2015 list will be applied and, given the 36% rise in valuations for Lewisham, it is anticipated there will be a number of appeals that will take time to be considered. If appeals are upheld, the Council is required to return the backdated overpayment and reduce the ongoing level of rates to be collected. A provision to cover the costs of appeals has been established and the potential ongoing revenue effect has been factored into the Council's budget.

7(b) Pension Fund Valuation

The Pension Fund's value increased over the year by £233m from £1,042m to £1,275m (22.4%). More detailed information is set out in Section 8 - Pension Fund Accounts.

Narrative Statement

7(c) New Bermondsey Inquiry

On 22nd February 2017 Lewisham's Full Council agreed to set up an Independent Inquiry to examine matters relating to a proposed Compulsory Purchase Order (CPO) of land at New Bermondsey/ Surrey Canal. The Independent Inquiry is planned to begin in April 2017 with a view to reporting before the end of the calendar year. The Council has agreed expenditure of up to £500,000 for the conduct of this Inquiry. Further information can be found at the attached site:

<https://www.lewisham.gov.uk/inmyarea/regeneration/deptford/north-deptford/Pages/New-Bermondsey-questions-and-answers.aspx>

7(d) Budget Overspends

There were significant overspends in 2016/17 in the placement budgets for the following areas:-

- Looked after children placements (£2.2m overspend): The cost of residential placements has grown throughout the year. At the end of 2015/16, the cost was on average £3,400 per week, but peaked during the year at £3,700, but has now come back down to £3,500. The overall overspend is made up of adoption allowances of £1.0m and special guardianship orders of £1.2m
- Adult services placements (£4.3m overspend): The greatest pressures remain on learning disability where the costs of transition clients have added an estimated £2m to adult budgets over the past two financial years. This has been identified as a financial risk, but has not been funded. Pressure on mental health budgets also increased during the year and the net overall overspend for this client group was £0.8m.

7(e) Dedicated Schools Grant

There were twelve schools and one pupil referral unit in deficit at the end of 2016/17. Three of these deficits were licensed by 31st March and a further three have been licensed since that date. Processes are underway to deal with the other seven cases. The total of all these deficits (whether licensed or unlicensed) stands at just under £4m. (See also Note 38 – Contingent Liabilities.)

7(f) Accounting Statement Change

The service format for the Comprehensive Income and Expenditure Statement (CIES) is now based on the Council's own organisational structure (instead of the SERCOP SEA). This follows a change in the Code of Practice for 2016/17. See Section 1 – Core Financial Statements – CIES. This change in the code also included the creation of two new notes, Note 1 the Expenditure and Funding Analysis and Note 23 Expenditure and Income Analysed by Nature, and the removal of the need for the Segmental reporting note.

8. THE COUNCIL'S STRATEGIES AND OVERALL PERFORMANCE

a) Our Vision

Lewisham's vision is: 'Together, we will make Lewisham the best place in London to live, work and learn'. Our vision was developed following consultation with Lewisham residents, public sector agencies, local business, voluntary and community sector organisations. This vision is not just for the Council, it has been adopted by the Lewisham Strategic Partnership and continues to be a bold aspiration that stretches and motivates the Council and its partners to set priorities and deliver services that will achieve the vision.

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The key strategic document for Lewisham and for the Lewisham Strategic Partnership is “Shaping Our Future - Lewisham's Sustainable Community Strategy 2008-2020”, which can be viewed at:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/strategies/Documents/Sustainable%20Community%20Strategy%202008-2020.pdf>

b) Our Corporate Priorities

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

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

c) Key Performance Indicators for Corporate Priorities

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

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

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

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

Narrative Statement

d) Corporate Risks

The Management Report also contains a summary of corporate risks. In accordance with the Council's Risk Management Strategy, risk is monitored by way of risk registers. Risks are scored in terms of likelihood and impact, with a range from 1 to 5 (with 5 being the highest) and the result is plotted on a matrix to produce a Red/Amber/Green rating. There are 22 risks in total on the Corporate Risk register (9 Red, 12 Amber, and 1 Green). The 9 red risks for the Council are:

- 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
- serious adult safeguarding concerns
- failure of child safeguarding arrangements
- 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.

Action plans are in place to mitigate the above risks and these are subject to regular review by Directorate Management Teams.

Statement of Responsibilities & Independent Auditor's Reports

THE STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

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

Responsibility of the Executive Director for Resources and Regeneration

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

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

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

I certify that I have also:

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

The Statement of Accounts gives a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2017.

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

Janet Senior CPFA

Executive Director for Resources and Regeneration
30th May 2017

Statement of Responsibilities & Independent Auditor's Reports

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

Statement of Responsibilities & Independent Auditor's Reports

Statement of Responsibilities & Independent Auditor's Reports

Statement of Responsibilities & Independent Auditor's Reports

Core Financial Statements

MOVEMENT IN RESERVES STATEMENT - YEAR ENDING 31ST MARCH 2017

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

Core Financial Statements

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	Note
Balance at 01 April 2015 Brought Forward	13,000	140,846	35,912	29,364	48,191	10,958	278,271	696,347	974,618	
Movement in Reserves during 2015/16										
Surplus or (Deficit) on the provision of services	37,259	0	(19,021)	0	0	0	18,238	0	18,238	
Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0	414,186	414,186	
Total Comprehensive Income and Expenditure	37,259	0	(19,021)	0	0	0	18,238	414,186	432,424	
Adjustments between accounting basis and funding basis under regulations	(25,577)	0	37,871	(3,757)	9,040	(2,809)	14,768	(14,768)	0	8
Net Increase / (Decrease) before Transfers to Earmarked Reserves	11,682	0	18,850	(3,757)	9,040	(2,809)	33,006	399,418	432,424	
Transfers to / (from) Earmarked Reserves	(11,682)	11,682	(11,868)	11,868	0	0	0		0	9, HRA 14, HRA 15
Increase / (Decrease) in 2015/16	0	11,682	6,982	8,111	9,040	(2,809)	33,006	399,418	432,424	
Balance at 31 March 2016 Carried Forward	13,000	152,528	42,894	37,475	57,231	8,149	311,277	1,095,765	1,407,042	
Note		9	HRA 15	HRA 14	19			20, 21, 22 Coll Fd 3		

Core Financial Statements

BALANCE SHEET AS AT 31ST MARCH 2017

31/03/2016 £000		31/03/2017 £000	Note
	Property, Plant & Equipment		
1,146,313	Council Dwellings	1,229,068	10b, HRA 1a, 9
791,587	Other Land and Buildings	774,672	10b
29,665	Vehicles, Plant, Furniture and Equipment	27,865	10b
109,917	Infrastructure	114,893	10b
7,155	Community Assets	4,982	10b
75,657	Surplus Assets not Held for Sale	76,893	10b
23,992	Assets under Construction	23,115	10b
2,184,286		2,251,488	
257	Heritage Assets	257	41
0	Investment Property	0	11
2,189	Long Term Investments	2,049	
25,734	Long Term Debtors	32,566	14a
2,212,466	Total Long Term Assets	2,286,360	
230,762	Short Term Investments	280,731	12
0	Assets Held for Sale	0	
191	Inventories	181	
57,360	Debtors	47,486	14b
101,427	Cash and Cash Equivalents	92,048	15
3,134	Prepayments	3,637	
392,874	Current Assets	424,083	
3,180	Bank Overdraft	3,532	15
35,671	Short Term Borrowing	26,854	12
3,229	Provisions (Less than 1 year)	3,758	17
69,079	Creditors	76,453	16
69,974	Receipts in Advance	76,789	18
7,706	PFI Liabilities due within one year	7,580	34d
188,839	Current Liabilities	194,966	
2,416,501	Total Assets less Current Liabilities	2,515,477	
157,701	Long Term Borrowing	166,126	12
8,347	Provisions (More than 1 year)	4,843	17
240,061	Deferred PFI Liabilities	236,196	34d
1,544	Capital Grants Receipts in Advance	1,616	
601,806	Liability related to defined benefit pension scheme	644,264	20, 37
1,009,459	Long Term Liabilities	1,053,045	
1,407,042	NET ASSETS	1,462,432	
	Usable Reserves		
13,000	General Fund Balance	13,000	
152,528	Earmarked Revenue Reserves	149,577	9
42,894	Housing Revenue Account	57,123	HRA 15
37,475	Major Repairs Reserve	39,907	HRA 14
57,231	Usable Capital Receipts Reserve	55,495	19
8,149	Capital Grants Unapplied	14,132	
311,277		329,234	
	Unusable Reserves		
808,913	Revaluation Reserve	890,273	21
899,650	Capital Adjustment Account	895,587	22
100	Deferred Capital Receipts	95	
(4,627)	Financial Instruments Adjustment Account	(3,841)	
(601,806)	Pensions Reserve	(644,264)	20, 37
(1,838)	Collection Fund Adjustment Account	3,096	Coll Fd 3
(4,627)	Short Term Compensated Absences Account	(7,748)	
1,095,765		1,133,198	
1,407,042	TOTAL RESERVES	1,462,432	

Core Financial Statements

CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2017

2015/16 £000s		2016/17 £000s	Note
18,238	Net surplus or (deficit) on the provision of services	(27,165)	
92,591	Adjustment to surplus or deficit on the provision of services for non-cash movements	105,498	42
(56,008)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(41,131)	43
54,821	Net Cash flows from Operating Activities	37,202	
(30,536)	Net Cash flows from Investing Activities	(40,791)	45
(9,034)	Net Cash flows from Financing Activities	(6,142)	46
15,251	Net Increase or (decrease) in Cash and Cash Equivalents	(9,731)	
82,996	Cash and Cash Equivalents at the beginning of the reporting period	98,247	15
98,247	Cash and Cash Equivalents at the end of the reporting period	88,516	15

SECTION 2 - STATEMENT OF ACCOUNTING POLICIES

1. GENERAL PRINCIPLES

The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015, which require them to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the SERCOP 2016/17, both published by CIPFA, and based on IFRS and statutory guidance under Section 12 of the Local Government Act 2003 (see Glossary for definitions). The accounting convention adopted in the Statement of Accounts is principally historic cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The Statement of Accounts has been prepared on a 'going concern' basis (in other words, on the expectation that the Council will continue to operate in its current form for the foreseeable future).

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

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

3. ACCRUALS OF INCOME AND EXPENDITURE

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

- Income from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that the economic benefits or service potential associated with the transaction will be received by the Council.
- Income from Council Tax 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 inventories on the Balance Sheet.
- Expenditure on services received (including those provided by employees) is accounted for when the services are received rather than when payments are made.

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.

Statement of Accounting Policies

4. EXCEPTIONAL ITEMS

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

5. FOREIGN CURRENCY TRANSLATION

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

6. VALUE ADDED TAX (VAT)

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

7. EVENTS AFTER THE BALANCE SHEET DATE

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

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

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

8. OVERHEADS AND SUPPORT SERVICES

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

9. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

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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 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 2016/17 (nor in 2015/16).

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

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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.

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.

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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 Local Pensions Partnership (LPP) on behalf of the London Pensions Fund Authority (LPFA);
- The Local Government Pension Scheme (LGPS), administered by Lewisham Council.

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

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

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

(ii) London Pension Fund Scheme

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

(iii) Local Government Pension Scheme

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

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

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

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

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

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

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

14. INTERESTS IN COMPANIES

The Council has two wholly owned subsidiary companies, Lewisham Homes and Catford Regeneration Partnership Ltd. It also has a minority interest (significantly lower than 50%) in a number of other companies. The transactions between the Council and all of these companies are included in the Council's accounts. An annual review of the necessity of preparing Group Accounts is undertaken, and for 2016/17 it has been concluded that the activities of Group's entities are sufficiently material to warrant the production of Group Accounts. This is a change over 2015/16, in which Group Accounts were considered to be below the threshold of materiality, and reflects the increased housing investment activities of Lewisham Homes. See also Section 6 – Group Accounts, and Note 25 - Investment in Companies.

15. REVENUE PROVISIONS AND IMPAIRMENT ALLOWANCES

a) Provisions

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

b) Impairment Allowances

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

16. RESERVES

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

Statement of Accounting Policies

17. CONTINGENT LIABILITIES AND ASSETS

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

18. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

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

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

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

There has been no repurchase or early settlement of borrowing in 2016/17 (nor in 2015/16). 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.

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ii) Available-for-Sale Assets

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

20. CASH AND CASH EQUIVALENTS

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

21. INTANGIBLE NON CURRENT ASSETS

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

22. NON CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

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

a) Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided it adds value, increases its ability to deliver future economic benefits or service potential, or can be capitalised as a component and exceeds the Council's de-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 capitalises costs incurred whilst assets are under construction if these costs are directly attributable to an asset and it is probable that future economic benefits will flow to the authority (in accordance with IAS 16). These balances are held on the balance sheet under the category Assets Under Construction and are transferred to the specific non-current assets category when the project reaches practical completion. Non-current assets are carried on the Balance Sheet using the following measurement bases:

- infrastructure, community assets and assets under construction – depreciated historical cost;
- dwellings – 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.

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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 2016/17 (nor in 2015/16).

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

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

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

c) Charges to Revenue for Non-Current Assets

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

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

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

d) Impairment

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

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

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

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e) Depreciation

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

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

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

f) Non-Current Assets Held for Sale

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

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

g) Disposals of Non-Current Assets

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

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

h) Deferred Capital Receipts

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

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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 in the previous year 2015/16 led to an assessment of the Council's Investment Properties and their reclassification to Property, Plant & Equipment. Consequently, they are 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.

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.

Statement of Accounting Policies

26. ACCOUNTING FOR SCHOOLS

Schools' accounting policies are the same as the Council's, with their income and expenditure being attributed to the appropriate service line in the CIES and their assets, liabilities and balances being included on the Balance Sheet. Schools' earmarked reserves are shown separately within Note 9 to the Core Financial Statements. An analysis of Dedicated Schools' Grant (the main source of funding for schools) is shown in Note 29. Any critical judgements made relating to accounting for schools' non-current assets (i.e. land and buildings) are shown in Note 3. For an up-to-date position on schools' licensed deficits / loans, see Narrative Statement – paragraph 7(e).

Notes to the Core Financial Statements

SECTION 3 – NOTES TO THE CORE FINANCIAL STATEMENTS

1. EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31ST MARCH 2017

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

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (a)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	53,797	20,492	74,289
Community Services Directorate	94,883	7,535	102,418
Customer Services Directorate	55,939	3,145	59,084
Resources & Regeneration Directorate	15,655	8,589	24,244
HRA	-17,479	9,821	-7,658
Corporate Services	-11,611	-8,707	-20,318
Cost of Services	191,184	40,875	232,059
Other Income and Expenditure	-204,894	0	-204,894
Surplus or Deficit	-13,710	40,875	27,165

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

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

Notes to the Core Financial Statements

EXPENDITURE AND FUNDING ANALYSIS – YEAR ENDING 31ST MARCH 2016

SERVICE	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between Funding and Accounting Basis (see Notes to EFA (a)) £'000	Net Expenditure in the CIES £'000
Children & Young People Directorate	36,305	-28,629	7,676
Community Services Directorate	100,500	8,321	108,821
Customer Services Directorate	40,471	11,602	52,073
Resources & Regeneration Directorate	13,376	7,856	21,232
HRA	-36,233	37,502	1,269
Corporate Services	49,656	-28,246	21,410
Cost of Services	204,075	8,406	212,481
Other Income and Expenditure	-230,850	132	-230,718
Surplus or Deficit	-26,775	8,538	-18,238

Opening General Fund and HRA Balance at 01 April 2015	-219,122
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	-26,775
Closing General Fund and HRA Balance at 31 March 2016	-245,897

<u>Analysed between General Fund and HRA Balances</u>			
	General Fund	HRA	Total
Opening General Fund and HRA Balance at 01 April 2015	-153,846	-65,276	-219,122
Add (Surplus)/ Deficit on General fund and HRA Balance in Year	-11,682	-15,093	-26,775
Closing General Fund and HRA Balance at 31 March 2016	-165,528	-80,369	-245,897

Notes to the Core Financial Statements

Notes to the EFA

(a) Adjustments between Funding and Accounting Basis

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

Adjustments from General Fund to arrive at the CIES amounts	2015/16			
	Adjustment for Capital Purposes	Net change for the Pensions Adjustments	Other Differences	Total Adjustments
	£'000	£'000	£'000	£'000
SERVICE				
Children & Young People Directorate	-36,890	9,304	-1,043	-28,629
Community Services Directorate	7,345	900	76	8,321
Customer Services Directorate	4,445	1,348	5,809	11,602
Resources & Regeneration Directorate	7,708	197	-49	7,856
HRA	35,535	2,446	-479	37,502
Corporate Services	-42,259	18,921	-4,908	-28,246
Cost of Services	-24,116	33,116	-594	8,406
Other Income and Expenditure	132			132
Difference between General Fund surplus or deficit and CIES surplus or deficit	-23,984	33,116	-594	8,538

Notes to the Core Financial Statements

(b) Segmental Income and Expenditure

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

	2015/16
	£'000
Revenues from external customers	-207,945
Revenues from transactions with other operating segments of the authority	0
Interest revenue	-2,607
Interest expense	34,855
Depreciation and amortisation	22,643
Material items of income and expense (related to disposals of PPE and investments and reversals of provisions)	6,987
The authority's interest in the profit or loss of associates and joint ventures accounted for by the equity method	0
Income tax expense or income	0
Material non-cash items other than depreciation and amortisation	0

2. ACCOUNTING STANDARDS ISSUED, NOT ADOPTED IN THE 2016/17 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 Code:-

- Leases: IFRS16 will require lessees to recognise most leases on their balance sheet – this is a significant change from current practice. Lessees will have a single accounting model for all leases, with two exemptions (low value assets and short term leases). Lessor accounting will be substantially unchanged. The new standard will come into effect in financial year 2018/19 (that is, from 1st January 2019, with limited early application permitted). Therefore, there is no impact on the 2016/17 Accounts. In 2018/19, as regards the Council as lessee, an initial assessment indicates that the current annual charge to the CIES of £1.5m will not change significantly, and the Existing Use Value of the leases would add approximately £15m to the balance sheet.

Notes to the Core Financial Statements

It was reported in the 2015/16 Statement of Accounts that there would be a major accounting change in 2016/17 regarding valuation of the Highways Network Asset. However, this new accounting standard has now been dropped from the Code of Practice and so is no longer a requirement.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

- a. There is uncertainty about future levels of funding for local government. However, the Council has concluded that it is unlikely that the assets of the Council will be impaired as a result of the actions required to achieve the necessary savings, including closing facilities and reducing services.
- b. A number of judgements have been made under IFRS concerning the classification of and the accounting for Non-Current Assets, Investment Properties, Leases, PFI and other major contracts, Capital and Revenue Grants and other miscellaneous items. The adoption of IFRS13 Fair Value Measurement in the previous year 2015/16 led to an assessment of the Council's Investment Properties and their reclassification to Property, Plant & Equipment (for further details, see Note 24 – Investment Properties – in Accounting Policies above). In summary, there are no material changes to these judgements for the 2016/17 Accounts compared to those followed in 2015/16.
- c. An accounting judgement has been made for each school as to whether their land and buildings should be included within the Council's Balance Sheet:-
 - Included are 41 Community Primary Schools, 5 Community Secondary Schools, 3 Community Special Schools, 2 Foundation Schools and 2 Nursery Schools (53 schools).
 - Excluded are 23 Voluntary-aided Schools, 3 Foundation Schools, 4 Academies and 4 Other Schools (34 schools).
 - Also excluded are assets acquired via PFI contracts where they relate to the excluded schools given above.
- d. A judgement has been made by the Council that it is proper practice to prepare Group Accounts for 2016/17, on grounds of materiality. For further information, see Section 2 – Accounting Policies (para. 14 – Interests in Companies); also Section 6 – Group Accounts; and Note 25 – Investment in Companies.
- e. The Council has previously agreed that it will indemnify all the pension costs of Lewisham Homes staff. The Council's judgement is that this indemnity is most accurately represented by accounting for the liability under IAS19, rather than as an accrual, provision, reserve or contingent liability. The Council's 2016/17 Single Entity Accounts therefore include the full costs of the Lewisham Homes IAS19 liability and are consistent with the Council's 2015/16 Accounts and Lewisham Homes' Accounts for both years.

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

These Accounts contain a number of estimated figures that are based on assumptions made about the future or that are otherwise uncertain, and take into account historical experience, current trends and other relevant factors. Because of this, the actual outcomes could be materially different from the assumptions and estimates made. The areas in the Council's Accounts at 31st March 2017 for which there is a significant possibility of material adjustment in the forthcoming financial year are as follows:-

Notes to the Core Financial Statements

a) Property, Plant and Equipment

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

b) Insurance Provisions

The insurance provision is made up of contributions to cover liabilities arising over a number of years. It is split between less than and greater than one year, estimating what proportion of the monies held relate to each of the years, what has been paid in each of those years and what remains outstanding. An annual review is commissioned from insurance advisors to inform this split. The balance on the provision < 1 year at 31st March 2017 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-Domestic Rates - Appeals

Since the introduction of the Business Rates Retention Scheme from 1st April 2013, Councils are liable for successful appeals against NDR charged to businesses in 2016/17 and earlier financial years in their proportionate share. Therefore, a provision has been raised for the estimate of the amount that businesses have been overcharged up to 31st March 2017, using the Valuation Office (VOA) ratings list of appeals and the analysis of successful appeals to date. The balance on this provision at 31st March 2017 is £3.1m.

d) Arrears of Significant Debtors

The Council had debtors balances of Council Tax, Non Domestic Rates, Housing Rents and sundry others of £115m as at 31st March 2017. 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 £68m. 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 £6.8m to be set aside.

e) Pensions Liability

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

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

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

Notes to the Core Financial Statements

6. EVENTS AFTER THE BALANCE SHEET DATE

The pre-audit Statement of Accounts was authorised for issue by the Executive Director for Resources and Regeneration on 30th May 2017. Events taking place after this date are not reflected in the accounts. Where events took place before this date which materially altered the conditions existing at 31st March 2017, 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 31st March 2017 affecting the 2016/17 accounts – any such events will affect the 2017/18 accounts only.

The rateable value for Virgin Media has been reduced from £23m to £15m, causing a reduction in business rates receivable for 2017/18. The impact of this will be mitigated by transitional relief in 2017/18. (See also Note 38 – Contingent Liabilities.)

7. OTHER OPERATING EXPENDITURE - LEVIES

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

	2016/17 £000	2015/16 £000
London Pension Fund Authority	1,229	1,232
Lee Valley Regional Park Authority	224	226
Environment Agency	179	173
Total Levies Paid	1,632	1,631

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

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

Notes to the Core Financial Statements

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

Notes to the Core Financial Statements

2015/16 - RESTATED	Usable Reserves					Movement in Unusable Reserves £'000
	General Fund Balance £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	
Adjustments to Revenue Resources						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pensions costs (transferred to/ from the Pensions Reserve)	30,670	2,446				(33,116)
Financial instruments (transferred to the Financial Instruments Adjustment Account)	(302)	(478)				780
Council Tax and NDR (transfers to/ from Collection Fund Adjustment Account)	5,674					(5,674)
Holiday Pay (transferred to the Accumulated Absences Account)	(881)					881
Reversal of entries included in the Surplus/ Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account (CAA))	(16,790)	55,873				(39,083)
Total Adjustments to Revenue Resources	18,371	57,841	0	0	0	(76,212)
Adjustments between Revenue and Capital Resources						
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(6,120)	(16,561)		22,681		0
Payments to the Government housing receipts pool (funded by a contribution from the Capital Receipts Reserve)	1,969			(1,969)		0
Statutory provision for the repayment of debt (transfer from the CAA)	(6,957)	(3,409)				10,366
Revenue Expenditure Funded from Capital under Statute	11,614					(11,614)
Capital expenditure funded from revenue balances (transfer to the CAA)	(6,440)					6,440
Total Adjustments between Revenue and Capital Resources	(5,934)	(19,970)	0	20,712	0	5,192
Adjustments to Capital Resources						
Use of the Capital Receipts Reserve to finance capital expenditure				(11,659)		11,659
Use of the Major Repairs Reserve to finance capital expenditure			(3,757)			3,757
Application of capital grants to finance capital expenditure	(33,408)				(2,809)	36,217
Cash payments in relation to deferred capital receipts				(13)		13
Total Adjustments to Capital Resources	(33,408)	0	(3,757)	(11,672)	(2,809)	51,646
Other Adjustments	(4,606)					4,606
Total Adjustments	(25,577)	37,871	(3,757)	9,040	(2,809)	(14,768)

Notes to the Core Financial Statements

9. EARMARKED RESERVES

The Council has a number of earmarked reserves on its Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up to provide resources for future spending plans. This note shows the amounts used to meet General Fund expenditure in 2016/17 and amounts set aside in the year to finance future expenditure plans. The use of HRA earmarked reserves is shown in the notes to the HRA in Section 4.

Name of Reserve	Balance 31/03/16 £000	2016/17 Transfers		Balance 31/03/17 £000	
		Out £000	In £000		
Specific Revenue Earmarked	79,957	(18,523)	9,909	71,343	(a)
PFI and BSF Schemes	22,277	0	1,615	23,892	(b)
New Homes Bonus Reserve	16,280	(5,503)	9,259	20,036	(c)
Insurance	14,167	(600)	3,162	16,729	(d)
Capital Programme Expenditure	3,046	(7,929)	5,812	929	(e)
	135,727	(32,555)	29,757	132,929	
Schools Reserves and External Funds	16,801	(17,016)	16,863	16,648	(f)
	16,801	(17,016)	16,863	16,648	
Total	152,528	(49,571)	46,620	149,577	

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) New Homes Bonus Reserve

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

d) Insurance Reserve

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

e) Capital Programme Expenditure Reserve

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

f) Schools Reserves and Schools External Funds

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

Notes to the Core Financial Statements

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

Assets are valued at least every five years as a minimum or more regularly where a five-yearly valuation is insufficient to keep pace with material changes in fair value, to ensure that the Council's assets are valued in accordance with RICS and CIPFA guidance. The valuations this year were undertaken and signed off by the valuers Wilkes, Head and Eve. Where revaluations have occurred in 2016/17, their exact effective date was 28th February 2017 for council dwellings and 31st January 2017 for other assets.

	Council Dwellings £000	Other Land & Buildings £000	Surplus Assets £000	Total £000
Valued at Historic Cost	750	5,767	4,031	10,548
Valued at Current Value				
2016/17	1,227,106	717,255	6,515	1,950,876
2015/16	91	50,952	65,920	116,963
2014/15	0	130	415	545
2013/14	0	568	12	580
2012/13	1,121	0	0	1,121
Total Net Book Value	1,229,068	774,672	76,893	2,080,633

b) Movements in Non-Current Assets

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

Notes to the Core Financial Statements

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

Notes to the Core Financial Statements

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
Gross Book Value b/fwd at 1st April 2015	1,060,622	610,423	56,105	138,449	8,854	52,932	29,604	1,956,989
Additions	90	24,964	3,071	16,216	284	5,884	17,846	68,355
Revaluations (recognised in Revaluation Reserve)	106,632	100,619	0	0	0	31,531	0	238,782
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	7,063	33,303	0	0	0	(3,436)	0	36,930
Impairments (recognised in Revaluation Reserve)	(29)	(958)	0	0	(30)	(7,516)	0	(8,533)
Impairments (recognised in Surplus/Deficit on the Provision of Services)	(80)	(185)	(52)	0	(548)	(6,791)	(2,671)	(10,327)
Disposals	(11,856)	(3,024)	(1,356)	0	(357)	(12,276)	0	(28,869)
Transfers	(12,486)	30,411	1,208	4,431	(1,040)	15,698	(20,787)	17,435
Assets reclassified to/from Held for Sale	0	0	0	0	0	0	0	0
Gross Book Value c/fwd at 31st March 2016	1,149,956	795,553	58,976	159,096	7,163	76,026	23,992	2,270,762
Depreciation b/fwd at 1st April 2015	(2,531)	(14,056)	(25,707)	(43,410)	(4)	(867)	0	(86,575)
Depreciation for year	(29,464)	(14,065)	(5,006)	(5,769)	(4)	(992)	0	(55,300)
<u>Depreciation written back on:</u>								
Transfers	353	277	0	0	0	(630)	0	0
Revaluations (recognised in Revaluation Reserve)	25,879	9,591	0	0	0	434	0	35,904
Revaluations (recognised in Surplus/Deficit on the Provision of Services)	2,099	13,819	0	0	0	718	0	16,636
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	511	1,356	0	0	929	0	2,817
Depreciation c/fwd at 31st March 2016	(3,643)	(3,966)	(29,311)	(49,179)	(8)	(369)	0	(86,476)
Net Book Value at 31st March 2016	1,146,313	791,587	29,665	109,917	7,155	75,657	23,992	2,184,286

Notes to the Core Financial Statements

11. INVESTMENT PROPERTIES

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

12. FINANCIAL INSTRUMENTS

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

a) Financial Instruments Balances

	Long-Term		Current		
	31/03/17 £000	31/03/16 £000	31/03/17 £000	31/03/16 £000	
Financial Liabilities (Principal)	165,910	157,492	25,000	33,763	1
Accrued Interest	216	209	1,854	1,908	1
Total Borrowings	166,126	157,701	26,854	35,671	
PFI and Finance Lease liabilities	236,196	240,060	7,580	7,706	
Total Other Liabilities	236,196	240,060	7,580	7,706	
Financial Liabilities at contract amount	-	-	59,153	62,471	2
Total Creditors	-	-	59,153	62,471	

	Long-Term		Current		
	31/03/17 £000	31/03/16 £000	31/03/17 £000	31/03/16 £000	
Loans and Receivables (Principal)	-	-	368,514	328,195	1
Accrued Interest	-	-	734	814	1
Total Investments	-	-	369,248	329,009	
Loans and Receivables	32,566	25,734	-	-	2
Financial Assets at contract amounts	-	-	31,639	43,949	2
Total Debtors	32,566	25,734	31,639	43,949	

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

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

Notes to the Core Financial Statements

Other Required Declarations

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

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

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

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

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

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

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

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

Borrowing costs capitalised in the year were £0.918m, at a rate of 4.38%. These were included in interest payable in the CIES.

b) Financial Instruments Gains / (Losses)

The gains and losses recognised in the CIES in relation to financial instruments are as follows (there were no revaluations on financial instruments in 2016/17 or 2015/16, or assets classified as Available for Sale):

	2016/17			2015/16
	Liabilities - Amortised Cost £000	Assets - Loans and Receivables £000	Totals £000	Totals £000
Interest Expense	9,029	-	9,029	9,070
Total Expense in Surplus or Deficit on Provision of Services	9,029	-	9,029	9,070
Interest Income	-	(2,338)	(2,338)	(2,403)
Total Income in Surplus or Deficit on Provision of Services	-	(2,338)	(2,338)	(2,403)
Net (Gain) / Loss for the Year	9,029	(2,338)	6,691	6,667

c) Fair Values of Assets and Liabilities

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

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

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

Notes to the Core Financial Statements

The following tables show the carrying amount of assets and liabilities on the balance sheet compared to the fair value amounts (undisclosed on the balance sheet). The fair value of Public Works Loan Board (PWLB) loans of £111m at the New Loan Rate compares the terms of existing PWLB commitments with the new borrowing rates available from the PWLB, given that the authority has a continuing ability to borrow at concessionary rates from the PWLB rather than from the markets (the Certainty rate).

A supplementary measure of the fair value of PWLB commitments is to compare the terms of these loans with estimates of the terms that would be offered for market transactions undertaken at the Balance Sheet date, which has been assumed as the PWLB Premature Repayment Rate. If the authority were to seek to repay the loans to the PWLB, the PWLB would raise a penalty charge for early redemption, based on the repayment interest rates, for the additional interest that will not now be paid. The exit price for the PWLB loans including the penalty charge would be £130m.

	Premature Repayment Rate 31/03/17		New Loan Rate 31/03/17		Premature Repayment Rate 31/03/16		New Loan Rate 31/03/16	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
PWLB Debt	77,557	130,001	77,557	111,012	78,869	121,476	78,869	104,315
Non-PWLB Debt *	115,423	195,775	115,423	162,336	114,503	173,345	114,503	140,921
Total Debt / Liabilities	192,980	325,776	192,980	273,348	193,372	294,821	193,372	245,236
Money Market Investments	373,191	373,313	373,191	373,313	331,294	331,582	331,294	331,582
Long Term Debtors	32,566	32,566	32,566	32,566	25,734	25,734	25,734	25,734
Total Assets	405,757	405,879	405,757	405,879	357,028	357,316	357,028	357,316

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

13. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

a) Key Risks

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

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

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

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

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

b) Overall Procedures for Managing Risk

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

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

Notes to the Core Financial Statements

These procedures are required to be reported and approved at Council before the start of the year to which they relate. These items are reported with the Annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported after each year. The annual treasury management strategy which incorporates the prudential indicators was last approved by Council in February 2017 and is available on the Council website. The Council maintains written principles for overall risk management, as well as written policies (Treasury Management Practices) covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash. These are a requirement of the Code of Practice and are reviewed periodically.

c) Credit Risk

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

The Council's maximum exposure to credit risk in respect of its investments cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to that institution. It is rare for institutions to be unable to meet their commitments and a risk applies to all of the Council's deposits, however at the 31 March 2017 there was no evidence that this was likely to happen.

d) Liquidity Risk

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

e) Refinancing and Maturity Risk

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

f) Interest Rate Risk

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

If variable interest rates had been 0.1% higher (with all other variables held constant) the financial effect would be a net increase in income of £0.2m. The impact of a 0.1% fall in interest rates would be a net decrease in income of £0.2m.

Notes to the Core Financial Statements

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

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

	31/03/17 £000	31/03/16 £000
Lewisham Homes - Loan	14,100	8,000
Catford Regeneration Partnership Ltd (CRPL) - Loan	12,223	11,383
Street Lighting PFI Sinking Fund	3,245	3,245
Lewisham Gateway Development - Loan	2,000	2,000
Land Charges Debts	384	388
Mortgages	177	184
Other Long Term Debtors	437	534
Total Long Term Debtors	32,566	25,734

a) Lewisham Homes Loan

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

b) Catford Regeneration Partnership Limited Loan

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

c) Street Lighting PFI Sinking Fund

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

d) Lewisham Gateway Development

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

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.

	31/03/17 £000	31/03/16 £000
Government and Other Public Bodies:		
HM Revenue & Customs - VAT	4,562	4,670
Central Government bodies	2,464	12,173
Other Local Authorities	2,866	1,527
NHS bodies	94	1,562
Other Public bodies	241	114
Council Tax Payers	28,995	27,480
NDR Payers	1,187	1,258
Council Tax Court Costs	7,389	6,752
Housing Benefit Overpayments	24,172	23,267
Housing Rents (inc PSL, B & B, Hostels, Commercial)	8,935	9,222
Leaseholders Services Charges	4,272	5,371
Parking	415	2,426
General Debtors due for Supplies and Services	29,404	25,396
Total Current Debtors	114,996	121,218
Impairment Allowances	(67,510)	(63,858)
Total Net Current Debtors	47,486	57,360

c) Impairment Allowances

	Balance at 31/03/16 £000	Movement in 2016/17 £000	Balance at 31/03/17 £000
Council Tax Payers	(25,406)	(1,512)	(26,918)
Council Tax Court Costs	(6,056)	(625)	(6,681)
NDR Payers	(919)	217	(702)
Housing Benefit Overpayments	(16,484)	(631)	(17,115)
Housing Rents (inc PSL, B & B, Hostels, Commercial)	(4,724)	68	(4,656)
Leaseholders Services Charges	(1,534)	142	(1,392)
General Debtors due for Supplies and Services	(8,734)	(1,312)	(10,046)
Total Impairment Allowances	(63,857)	(3,653)	(67,510)

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

Notes to the Core Financial Statements

15. CASH AND CASH EQUIVALENTS

	Balance 31/03/16 £000	Movement in 2016/17 £000	Balance 31/03/17 £000
Cash Equivalents			
Short Term Deposits	10,014	(10,014)	0
Cash			
Money Market Funds	90,518	1,943	92,461
Call Accounts with Banks	0	0	0
	90,518	1,943	92,461
Other Cash and Bank Balances			
Main Bank Accounts	0	0	0
Other Cash and Bank Accounts	895	(1,308)	(413)
	895	(1,308)	(413)
Total Cash and Cash Equivalents	101,427	(9,379)	92,048
Bank Accounts Overdrawn			
Main Bank Accounts	(2,650)	(720)	(3,370)
Schools Bank Accounts	(530)	368	(162)
	(3,180)	(352)	(3,532)
Net Cash and Cash Equivalents	98,247	(9,731)	88,516

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 £15.2m (2015/16 £13.8m) and overdrawn £15.3m (2015/16 overdrawn £14.4m) respectively.

Notes to the Core Financial Statements

16. CREDITORS

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

	31/03/17 £000	31/03/16 £000
Government and other public bodies:		
HM Revenue & Customs	5,413	5,393
Central Government bodies	4,403	3,559
Other Local Authorities	8,422	3,702
NHS bodies	13,527	12,907
Other Public bodies	1,571	955
	33,336	26,956
Short Term Compensated Absences	7,748	4,627
General Creditors (amounts owed for supplies and services)	35,369	37,494
Total Creditors	76,453	69,077

17. REVENUE RECEIPTS IN ADVANCE

	31/03/17 £000	31/03/16 £000
Capital Contributions Unapplied	32,805	28,210
PFI Schemes	22,486	21,105
Council Tax	7,558	6,815
NDR	2,295	1,773
Rents in Advance	4,161	3,706
Revenue Grants and Contributions	2,264	2,614
Other Receipts in Advance	5,220	5,751
Total Receipts in Advance	76,789	69,974

Notes to the Core Financial Statements

18. PROVISIONS

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

	Balance 31/03/16 £000	2016/17 Transfers		Balance 31/03/17 £000
		Out £000	In £000	
Current (less than 1 year)				
Insurance Provision	2,748	(3,468)	3,423	2,703
Other Provisions	481	(877)	1,451	1,055
	3,229	(4,345)	4,874	3,758
Non Current (Over 1 year)				
Insurance Provision	6,574	(2,891)	43	3,726
Other Provisions	1,773	(656)	0	1,117
	8,347	(3,547)	43	4,843
Total - Provisions	11,576	(7,892)	4,917	8,601

Insurance Provisions

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

19. USABLE CAPITAL RECEIPTS

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

	2016/17 £000	2015/16 £000
Balance brought forward at start of year	57,231	48,191
Amounts Received	19,364	22,668
Poolable to Central Government	(1,947)	(1,969)
Amounts applied to finance new capital investment	(19,153)	(11,659)
Total increase/(decrease) in capital receipts in year	(1,736)	9,040
Balance carried forward at end of year	55,495	57,231

Notes to the Core Financial Statements

20. PENSION RESERVE

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

	2016/17 £000	2015/16 £000
Balance brought forward at start of year	(601,806)	(716,722)
Actuarial gains or losses on pensions assets and liabilities	(19,316)	148,032
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	(57,622)	(66,478)
Employer's pensions contributions and direct payments to pensioners payable in the year	34,480	33,362
Balance carried forward at end of year	(644,264)	(601,806)

21. REVALUATION RESERVE

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

	2016/17 £000	2015/16 £000
Balance brought forward at start of year	808,913	558,835
Revaluation of Assets	105,109	274,726
Impairment Losses	(3,252)	(8,572)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	101,857	266,154
Difference between fair value and historic cost depreciation	(15,946)	(15,417)
Accumulated gains on assets sold or scrapped	(4,551)	(5,266)
Other amounts written off to Capital Adjustment Account	0	4,607
Amount written off to the Capital Adjustment Account	(20,497)	(16,076)
Balance carried forward at end of year	890,273	808,913

Notes to the Core Financial Statements

22. CAPITAL ADJUSTMENT ACCOUNT

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

	2016/17 £000	2015/16 £000
Balance brought forward at start of year	899,650	861,199
<u>Reversal of capital expenditure items debited or credited to the CIES</u>		
Charges for depreciation and impairment of non-current assets	(61,954)	(9,423)
Revenue expenditure funded from capital under statute	(5,799)	(11,614)
Non-current assets written off on disposal - gain/loss to the CIES	(5,217)	(24,368)
	(72,970)	(45,405)
Adjusting amounts written out of the Revaluation Reserve	15,960	15,417
Net amount written out of the cost of non-current assets consumed in the year	(57,010)	(29,988)
<u>Capital Financing applied in the year:</u>		
Use of Capital Receipts to finance new capital expenditure	19,153	11,659
Use of Major Repairs Reserve to finance new capital expenditure	844	3,757
Capital grants and contributions credited to the CIES	15,929	36,217
Statutory Provision for the financing of capital investment	6,089	1,623
Repayment of Principal on PFI schemes	7,067	8,743
Capital expenditure charged to General Fund and HRA	3,865	6,440
	52,947	68,439
Balance carried forward at end of year	895,587	899,650

Notes to the Core Financial Statements

23. EXPENDITURE AND INCOME ANALYSED BY NATURE

	2016/17 £000	2015/16 £000
Employee expenses - LBL	273,772	271,388
Employee expenses - Schools not part of LBL Payroll	58,558	57,391
Other Expenditure	660,534	676,554
Depreciation, amortisation and impairment	61,954	22,643
Interest payments	34,995	34,855
Precepts and levies	1,632	1,631
Payments to Housing Capital Receipts Pool	1,947	1,969
Gain or loss on disposal of non-current assets	0	6,987
Net interest on the net defined benefit liability	21,152	23,175
Total Expenditure	1,114,544	1,096,593
Government grants and contributions	(662,253)	(690,651)
Fees, Charges and Other service income	(220,114)	(207,945)
Interest and Investment income	(3,002)	(2,607)
Income from council tax, non-domestic rates, district rate income	(176,610)	(172,644)
Recognised Capital Grants and Contributions	(15,577)	(37,346)
Gain or loss on disposal of non-current assets	(9,823)	0
Other Income	0	(3,638)
Total Income	(1,087,379)	(1,114,831)
(Surplus) or Deficit on the Provision of Services	27,165	(18,238)

24. AGENCY SERVICES AND POOLED BUDGETS

The Council did not carry out any agency services, construction work or any other work for any other Local Authorities, public bodies or entities in 2016/17 (nor 2015/16).

In 2016/17 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

	2016/17 £000	2015/16 £000
Funding provided to the pooled budget:		
Lewisham Borough Council	(1,781)	(2,102)
NHS Lewisham CCG	(20,165)	(19,740)
	(21,946)	(21,842)
Expenditure met from the pooled budget:		
Lewisham Borough Council	11,206	13,629
NHS Lewisham CCG	10,740	8,213
	21,946	21,842
Net surplus arising in year	0	0

Note:

- (i) The LBL share of any in-year net surplus would be 9.6%. This was nil in 2016/17 (and 2015/16) due to there not being a surplus.

Notes to the Core Financial Statements

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

The Council is sole owner of two companies:

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

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

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

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

The Council also has a 10% stake in four Special Purpose Vehicles which were set up in relation to the schools which were built within this BSF Programme. 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 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 £5.4m were made in 2016/17 to the company (£5.6m in 2015/16).

iii) Newable Ltd

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

26. MEMBERS' ALLOWANCES

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

	2016/17	2015/16
	£000	£000
Allowances (incl. NI)	932	936
Other Expenses	70	66
Total Expenditure in Year	1,002	1,002

Notes to the Core Financial Statements

27. OFFICERS' REMUNERATION**a) The number of Employees whose Remuneration was £50,000 or more:-**

Remuneration Band	Non-Schools		Schools		Totals	
	2016/17	2015/16	2016/17	2015/16	2016/17	2014/15
£50,000 to £54,999	51	49	178	200	229	249
£55,000 to £59,999	24	32	89	90	113	122
£60,000 to £64,999	16	24	54	39	70	63
£65,000 to £69,999	17	9	23	36	40	45
£70,000 to £74,999	8	8	26	22	34	30
£75,000 to £79,999	2	6	19	15	21	21
£80,000 to £84,999	2	2	9	12	11	14
£85,000 to £89,999	0	0	9	7	9	7
£90,000 to £94,999	1	1	5	3	6	4
£95,000 to £99,999	7	9	2	3	9	12
£100,000 to £104,999	1	0	1	1	2	1
£105,000 to £109,999	1	1	4	3	5	4
£110,000 to £114,999	1	0	0	3	1	3
£115,000 to £119,999	2	2	1	1	3	3
£120,000 to £124,999	0	0	0	0	0	0
£125,000 to £129,999	0	0	0	1	0	1
£130,000 to £134,999	0	0	0	0	0	0
£135,000 to £139,999	1	1	0	0	1	1
£140,000 to £144,999	3	2	0	0	3	2
£150,000 to £154,999	1	0	0	0	1	0
£165,000 to £169,999	0	0	0	1	0	1
Total	138	146	420	437	558	583

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

Notes to the Core Financial Statements

b) Disclosure of Senior Employees' Remuneration

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

Financial Year 2016/17	Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
	£	£	£
Senior Employees			
Executive Director for Children and Young People	139,871	31,471	171,342
Executive Director for Resources and Regeneration	142,536	32,071	174,607
Executive Director for Community Services	143,472	32,281	175,753
Executive Director for Customer Services	142,536	32,071	174,607
Chief Executive (Part time)	116,586	0	116,586
Director of Children's Social Care and Health	115,974	26,094	142,068
Director of Regeneration and Asset Management (a)	0	0	0
Director of Public Health - Dr D Ruta (b)	153,874	18,200	172,074
Head of Law and Monitoring Officer (Part time)	66,067	14,865	80,932
Totals	1,020,916	187,053	1,207,969

(a) The Director of Regeneration and Asset Management left the authority in February 2016 and was not replaced.

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

Financial Year 2015/16	Salary (inc fees and allowances)	Employer's Pension Contributions	Total (inc. Pension Contributions)
	£	£	£
Senior Employees			
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
Totals	1,077,496	202,168	1,279,664

Note – No payments in respect of bonuses, expenses or compensation for loss of office were made to any of these employees in 2016/17 (or 2015/16).

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	
	2016/17 No.	2015/16 No.	2016/17 £000	2015/16 £000
£0 to £20,000	70	95	435	1,060
£20,001 to £40,000	26	60	782	1,737
£40,001 to £60,000	14	32	670	1,508
£60,001 to £80,000	3	11	200	768
£80,001 to £100,000	3	9	258	772
£100,001 to £120,000	0	1	0	112
£140,001 to £160,000	0	1	0	150
£220,001 to £240,000	0	1	0	232
Total	116	210	2,345	6,339

28. EXTERNAL AUDIT COSTS

	2016/17 £000	2015/16 £000
External Audit Services	193	193
Certification of Grant Claims and Returns	41	40
Other services provided by the appointed auditor	10	24
	244	257

The Council's External Auditors are Grant Thornton.

Notes to the Core Financial Statements

29. DEDICATED SCHOOLS' GRANT

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

	2016/17			2015/16		
	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000	Central Expenditure £000	Individual Schools Budget (ISB) £000	Total £000
Final DSG before academy recoupment	66,504	218,237	284,741	51,621	227,821	279,442
Academy figure recouped	(853)	(26,803)	(27,656)	(964)	(26,466)	(27,430)
Total DSG after academy recoupment	65,651	191,434	257,085	50,657	201,355	252,012
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
Agreed initial budgeted distribution	64,406	218,237	282,643	47,979	227,821	275,800
In year adjustments	2,078	20	2,098	3,790	(148)	3,642
Final Budget Distribution	66,484	218,257	284,741	51,769	227,673	279,442
Actual Central Expenditure	66,484		66,484	51,769		51,769
Actual ISB deployed to schools		218,257	218,257		227,673	227,673

30. GRANT INCOME

The following grants were credited to services during the year:

	2016/17 £000	2015/16 £000
Dedicated Schools Grant	(257,242)	(254,026)
Housing Benefit Grant	(225,422)	(230,458)
Housing Subsidy/ Decent Homes Backlog Grant	(10,353)	(10,353)
BSF/ Grouped Schools PFI Unitary Charge Grant	(25,585)	(25,585)
Public Health Grant	(25,307)	(22,400)
Pupil Premium Grant	(15,877)	(16,406)
Other Grants	(42,595)	(31,004)
Total	(602,381)	(590,232)

Notes to the Core Financial Statements

31. RELATED PARTY TRANSACTIONS

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

(a) Central Government and Other Local Authorities

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

(b) Subsidiaries, Associated Companies and Joint Ventures

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

(c) Elected Members (Councillors) and Chief Officers

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

- Councillor Alan Till is a board member of the Marsha Phoenix Memorial Trust (£0.201m) and Voluntary Services Lewisham (£0.184m)
- Councillor Brenda Dacres is a board member of the Albany Trust (£0.973m)
- Councillor Joan Milbank is a board member of Voluntary Action Lewisham (£0.139m)
- Councillor John Muldoon is a Governor of the South London and Maudsley NHS Trust (£2.705m)
- Councillor Pat Raven is a board member of Lewisham Disability Coalition (£0.102m)

(d) Lewisham Pension Fund

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

Notes to the Core Financial Statements

32. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

	2016/17 £000	2015/16 £000
Opening Capital Financing Requirement	241,725	230,786
Capital Investment		
Property, Plant and Equipment	40,963	58,916
Revenue Expenditure Funded from Capital under Statute	5,799	11,614
	46,762	70,530
Resources Used for Financing		
Capital Receipts	(19,153)	(11,659)
Government Grants and Other Contributions	(15,898)	(36,112)
Sums set aside from Revenue:	(4,709)	(10,197)
	(39,760)	(57,968)
Increase in the underlying need to borrowing	7,002	12,562
Debt Redeemed - Minimum Revenue Provision	(6,089)	(1,623)
Increase/ (decrease) in Capital Financing Requirement	913	10,939
Closing Capital Financing Requirement	242,638	241,725

Notes to the Core Financial Statements

33. 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 £1.5m (£1.6m in 2015/16). The future minimum lease payments due under non-cancellable leases in futures are:

	31/03/17 £000	31/03/16 £000
Not later than one year	1,258	1,261
Later than one year and not later than five years	2,896	3,428
Later than five years	14,794	19,130
	18,948	23,819

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

b) Council as a Lessori) Finance Leases

Following a review in 2016/17, it has been determined that the Council does not have any assets held under Finance Leases.

ii) Operating Leases

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

	31/03/17 £000	31/03/16 £000
Not later than one year	2,091	1,969
Later than one year and not later than five years	4,614	6,120
Later than five years	2,258	4,059
	8,963	12,148

Notes to the Core Financial Statements

34. PRIVATE FINANCE INITIATIVES (PFI) CONTRACTS

a) Summary of PFI Schemes

PFI Scheme	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting
Start of Contract	2007	2007	2007	2009	2011	2012	2012	2011
End of Contract	2027	2039	2036	2035	2037	2037	2038	2036
Total Estimated Cost	£285m	£76m	£226m	£240m	£85m	£118m	£223m	£95m
Total PFI Credits	£207m	£30m	£674m					£54m
Net PFI Cost	£78m	£46m	£218m					£41m

b) Payments made under PFI contracts

	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Street Lighting	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000
2016/17									
Service Charges	7,798	437	3,182	2,822	769	857	1,434	897	18,196
Interest	4,563	1,606	3,393	4,342	1,827	2,693	5,307	2,235	25,966
Liability Repayment	2,460	306	735	1,470	361	671	1,171	532	7,706
Unitary Charge	14,821	2,349	7,310	8,634	2,957	4,221	7,912	3,664	51,868
2015/16									
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
Unitary Charge	14,620	2,314	7,253	8,534	2,935	4,184	7,815	3,433	51,087

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

	2016/17		Restated 2015/16	
	£000	£000	£000	£000
Gross Book Value b/fwd		324,467		252,080
Additions		3,076		8,757
Revaluations (recognised in Revaluation Reserve)	5,419		44,607	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	5,133	10,552	20,104	64,711
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0
Disposals		(1,157)		(1,081)
Transfers		0		0
Assets reclassified (to)/ from Held for Sale		0		0
Gross Book Value c/fwd		336,938		324,467
Depreciation b/fwd		(1,632)		(3,537)
Depreciation for year		(6,981)		(6,259)
<u>Depreciation written back on:</u>				
Transfers		0		0
Revaluations (recognised in Revaluation Reserve)	3,462		5,102	
Revaluations (recognised in Surplus/ Deficit on the Provision of Services)	2,474	5,936	3,060	8,162
Impairments (recognised in Revaluation Reserve)	0		0	
Impairments (recognised in Surplus/ Deficit on the Provision of Services)	0	0	0	0
Assets sold		2		2
Depreciation c/fwd		(2,675)		(1,632)
Net Book Value at End of Year		334,262		322,834

d) PFI Liabilities

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

	Current Liabilities (Due within 1 Year)		Deferred (Future) Liabilities	
	2016/17 £000	2015/16 £000	2016/17 £000	2015/16 £000
Balance outstanding at start of year	7,706	8,751	240,061	239,002
Balance outstanding at end of year	7,580	7,706	236,196	240,061

Notes to the Core Financial Statements

e) Payments due under PFI contracts in future years

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

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

Payments due	Brockley HRA	Downham Lifestyles	Grouped Schools	BSF 1	BSF 2	BSF 3	BSF 4	Streetlig hting	Total
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
In 2017/18									
Service charges	7,664	226	2,614	2,479	750	888	1,579	779	16,980
Interest	4,342	1,533	3,308	4,167	1,785	2,650	5,214	2,392	25,391
Repayment of liability	2,662	103	737	1,392	348	698	1,101	538	7,580
Planned lifecycle replacement	418	237	772	701	101	39	107	0	2,373
	15,086	2,099	7,430	8,738	2,984	4,274	8,001	3,709	52,323
within 2 to 5 years									
Service charges	34,430	963	11,216	10,669	3,164	3,960	7,222	3,314	74,938
Interest	14,344	6,263	12,384	15,224	6,734	10,086	19,982	9,195	94,212
Repayment of liability	12,002	570	3,315	5,720	1,538	3,110	4,640	2,665	33,558
Planned lifecycle replacement	2,181	1,008	3,820	4,400	783	416	990	0	13,599
	62,957	8,803	30,736	36,012	12,219	17,572	32,834	15,173	216,307
within 6 to 10 years									
Service charges	48,422	1,345	15,906	15,238	4,421	6,144	10,440	4,631	106,547
Interest	10,547	7,984	13,397	15,453	7,382	10,990	22,490	10,273	98,516
Repayment of liability	23,112	1,247	5,926	9,990	2,639	4,886	8,562	4,844	61,206
Planned lifecycle replacement	3,002	1,422	5,716	6,923	1,520	1,109	1,574	0	21,266
	85,084	11,997	40,945	47,605	15,962	23,129	43,066	19,748	287,535
within 11 to 15 years									
Service charges	620	1,522	18,302	17,667	5,002	7,864	13,417	5,239	69,632
Interest	204	7,662	10,168	10,337	5,721	8,347	17,558	8,099	68,097
Repayment of liability	647	2,022	11,010	16,363	4,349	6,314	11,438	7,314	59,456
Planned lifecycle replacement	1	1,625	4,052	6,468	1,747	2,057	3,176	0	19,125
	1,471	12,831	43,531	50,835	16,819	24,581	45,590	20,652	216,311
within 16 to 20 years									
Service charges	0	1,722	17,147	11,933	5,660	9,298	16,031	5,127	66,918
Interest	0	6,835	4,194	1,645	2,962	4,967	10,648	4,247	35,498
Repayment of liability	0	3,510	14,095	12,263	7,249	9,361	17,571	9,312	73,361
Planned lifecycle replacement	0	1,838	3,165	3,668	1,919	2,598	4,196	0	17,383
	0	13,905	38,600	29,509	17,790	26,224	48,446	18,686	193,160
within 21 to 25 years									
Service charges	0	750	0	0	508	884	3,635	0	5,777
Interest	0	2,275	0	0	40	295	932	0	3,542
Repayment of liability	0	2,146	0	0	751	1,275	4,443	0	8,615
Planned lifecycle replacement	0	801	0	0	250	276	1,055	0	2,383
	0	5,973	0	0	1,549	2,730	10,064	0	20,316
within 26 to 30 years									
Service charges									0
Interest									0
Repayment of liability									0
Planned lifecycle replacement									0
	0	0	0	0	0	0	0	0	0
TOTAL PAYMENTS DUE	164,598	55,609	161,243	172,699	67,323	98,511	188,001	77,969	985,953

Notes to the Core Financial Statements

35. LONG TERM CONTRACTS

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

Contract Name	Contractor	Start/ End Date	Total Contract Value
School Meals Catering Contract	Chartwells	May-15/ Apr-20	£40m
Parks and Open Spaces	Glendale Grounds Management	Mar-10/ Feb-20	£26.1m
Leisure Centre Management	Fusion Lifestyles	Oct-12/ Oct-27	£12.7m
Parking Contract	NSL	Aug-13/ Jul-19	£10.8m
Corporate Cleaning Contract	ISS Facility Services	Jul-10/ Jul-17	£9.1m
Highway Maintenance Contract	FM Conway	Apr-14/ Mar-19	£7.5m
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

36. DEFINED CONTRIBUTION PENSION SCHEMES

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

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

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

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

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

Notes to the Core Financial Statements

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

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

c) Transactions relating to Retirement Benefits

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

Comprehensive Income and Expenditure Statement

	2016/17 £000	2015/16 £000
Cost of Service		
Current Service Cost	35,679	41,742
Past Service Cost (inc.settlements and curtailments)	791	1,561
	36,470	43,303
Financing and Investment Income and Expenditure		
<u>Net Interest on the Net Defined Benefit Liability</u>		
Interest Income on Scheme Assets	(36,207)	(31,318)
Interest Cost on Defined Benefit Obligation (Liabilities)	57,359	54,493
	21,152	23,175
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	57,622	66,478
<u>Remeasurements of the Net Defined Benefit Liability</u>		
Return on Assets excluding amounts included in Net Interest	(204,685)	33,019
Actuarial Losses from changes in Demographic Assumptions	(18,395)	0
Actuarial Losses from changes in Financial Assumptions	291,213	(154,346)
Other Gains and Losses	(48,817)	(26,705)
Total Remeasurements recognised in CIES	19,316	(148,032)
Total Post Employment Benefits Charged to the CIES	76,938	(81,554)

Movement in Reserves Statement

	2016/17 £000	2015/16 £000
Reversal of Net Charges made to the the Surplus or Deficit on the Provision of Services	(57,622)	(66,478)
Employers' Contributions Payable to the Scheme	34,480	33,362
Return on Assets excluding amounts included in Net Interest	204,685	(33,019)
Actuarial Gains and Losses	(224,001)	181,051
Net Movement in Pensions Reserve	(42,458)	114,916

Notes to the Core Financial Statements

d) Pensions Assets and Liabilities Recognised in the Balance Sheet

	31/03/17 £000	31/03/16 £000
Fair Value of Plan Assets	1,273,563	1,045,251
Present Value of Defined Benefit Liability (Obligation)	(1,843,419)	(1,575,146)
	(569,856)	(529,895)
Present Value of Unfunded Liabilities	(74,408)	(71,911)
Pensions Reserve - Year End Balance	(644,264)	(601,806)

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

	31/03/17 £000	31/03/16 £000
Opening Fair Value of Scheme Assets	1,045,251	1,053,518
Interest Income on Scheme Assets	36,207	33,435
Administration	(89)	(108)
<u>Remeasurement Gains / Losses</u>		
Return on Assets excluding amounts included in Net Interest	204,685	(33,019)
Employer Contributions	29,519	28,347
Contributions in respect of Unfunded Benefits	4,961	5,015
Contributions from Scheme Participants	8,409	8,494
Benefits Paid	(50,582)	(45,416)
Unfunded Benefits Paid	(4,961)	(5,015)
Other Gains and Losses	163	0
Closing Fair Value of Scheme Assets	1,273,563	1,045,251

Notes to the Core Financial Statements

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

	31/03/17 £000	31/03/16 £000
Opening Present Value of Scheme Liabilities (Obligations)	(1,647,057)	(1,770,240)
Current Service Cost	(35,679)	(41,742)
Interest Cost on Defined Benefit Obligation (Liabilities)	(57,270)	(56,502)
Contributions from Scheme Participants	(8,409)	(8,494)
<u>Remeasurement Gains / Losses</u>		
Benefits Paid	50,582	45,416
Unfunded Benefits Paid	4,961	5,015
Actuarial Losses from changes in Demographic Assumptions	18,395	0
Actuarial Losses from changes in Financial Assumptions	(291,213)	154,346
Other Gains and Losses	48,654	26,705
Past Service Costs / Curtailments / Settlements	(791)	(1,561)
Closing Present Value of Scheme Liabilities (Obligations)	(1,917,827)	(1,647,057)

g) Pension Scheme Assets

	31/03/17			31/03/16		
	Active Market £000	Not in Active Markets £000	Total £000	Active Market £000	Not in Active Markets £000	Total £000
LGPS (LBL and LH)						
Equities	0	10,367	10,367	63,273	29,545	92,818
Debt Securities	110,095	0	110,095	90,328	0	90,328
Real Estate	0	113,020	113,020	8,499	83,292	91,791
Investment Funds / Unit Trusts	873,333	9,640	882,973	654,323	7,105	661,427
Private Equity	0	29,724	29,724	0	0	0
Cash and Cash Equivalents	0	48,178	48,178	4,722	35,506	40,228
Total LGPS Assets	983,428	210,929	1,194,357	821,145	155,448	976,592

	31/03/17			31/03/16		
	Active Market £000	Not in Active Markets £000	Total £000	Active Market £000	Not in Active Markets £000	Total £000
LPFA						
Equities	39,073	7,860	46,933	28,755	3,140	31,895
LDI Cashflow matching	0	0	0	0	6,960	6,960
Target Return Portfolio	9,511	7,225	16,736	3,556	11,049	14,605
Infrastructure	401	3,770	4,171	209	3,552	3,761
Commodities	0	0	0	0	307	307
Properties	0	4,038	4,038	0	2,450	2,450
Cash	7,328	0	7,328	8,681	0	8,681
Total LPFA Assets	56,313	22,893	79,206	41,201	27,458	68,659

Notes to the Core Financial Statements

h) Basis for Estimating Assets and Liabilities

	Local Government Pension Scheme		LPFA	
	2016/17	2015/16	2016/17	2015/16
Rate of Inflation – CPI	2.4%	2.2%	2.4%	2.0%
Salary Increase Rate	3.1%	4.2%	3.9%	3.8%
Pensions Increases	2.4%	2.2%	2.4%	2.0%
Rate for discounting scheme liabilities	2.6%	3.5%	2.2%	3.3%
Mortality assumptions				
Longevity at 65 for current pensioners - Men	22.2yrs	21.7yrs	20.9yrs	21.6yrs
Longevity at 65 for current pensioners - Women	24.6yrs	24.0yrs	23.9yrs	24.4yrs
Longevity at 65 for future pensioners - Men	24.0yrs	24.4yrs	23.2yrs	24.0yrs
Longevity at 65 for future pensioners - Women	26.5yrs	26.7yrs	26.2yrs	26.7yrs

i) Sensitivity Analysis

Change in Assumption at 31st March 2017	Approximate % Increase in Employer Liability	Approximate Monetary Amount (£000)
LGPS - LB Lewisham		
0.5% Decrease in Real Discount Rate	9%	153,686
1 Year Increase in Member Life Expectancy	4%	68,305
0.5% Increase in the Salary Increase Rate	1%	15,432
0.5% Increase in the Pension Increase Rate	8%	136,610
LGPS - Lewisham Homes		
0.5% Decrease in Real Discount Rate	11%	14,917
1 Year Increase in Member Life Expectancy	4%	5,424
0.5% Increase in the Salary Increase Rate	2%	2,343
0.5% Increase in the Pension Increase Rate	9%	12,348
LPFA		
0.5% Decrease in Real Discount Rate	n/a	1,410
1 Year Increase in Member Life Expectancy	n/a	287
0.5% Increase in the Salary Increase Rate	n/a	1,390
0.5% Increase in the Pension Increase Rate	n/a	1,410

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

j) Future Contributions

The objectives of the scheme are to keep the employer's contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve an increased funding level over the next 3 years. Funding levels are monitored on an annual basis and the next triennial valuation is due at 31st March 2019. The Council anticipates paying £25.5m in contributions to the scheme in 2017/18.

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

Notes to the Core Financial Statements

38. CONTINGENT LIABILITIES

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

As indicated in the Narrative Statement – Significant Events, the total of school deficits / loans stands at just under £4m at the end of 2016/17. Because of the complexities and future uncertainties over the arrangements for dealing with school deficits / loans, some or all of this £4m may ultimately fall to be met from the Council's General Fund, either in 2017/18 or a later year.

As at 31st March 2017, the Council had previously been 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. This proposal has since been withdrawn, as notified by VOA in May 2017. (See also Note 6 – Events after the Balance Sheet Date.)

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

39. CONTINGENT ASSETS

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

40. TRUST FUNDS

The Council acts as a trustee for other funds which are not included in the Balance Sheet. Interest on these funds is credited annually at the average rate earned on the Council's revenue balances. The total amount held as at 31st March 2017 was £1.01m (£0.65m as at 31st March 2016)

41. HERITAGE ASSETS

These assets comprise Lewisham Clock Tower and the Civic Regalia. Their values in the accounts are insurance values which are assessed internally and based on current market values. The value of the assets at 31st March 2017 is £0.26m (£0.26m as at 31st March 2016).

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

Notes to the Core Financial Statements

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

	2016/17 £000	2015/16 £000
Depreciation, Impairment and Downward Valuations	57,843	11,186
Increase/ (decrease) in creditors	10,906	(14,701)
(Increase)/ decrease in debtors	2,702	31,558
(Increase)/ decrease in inventories (stock)	10	122
Movement in pension liability	23,142	33,116
Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	9,749	29,634
Other non-cash items charged to the net surplus or deficit on the provision of services	1,146	1,676
Total Adjustment to net surplus or deficit on the provision of services for non-cash movements	105,498	92,591

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

	2016/17 £000	2015/16 £000
Proceeds from short-term (not considered to be cash equivalents) and long-term investments (includes investments in associates, joint ventures and subsidiaries)	140	55
Proceeds from the sale of property plant and equipment, investment property and intangible assets	(19,359)	(22,655)
Any other items for which the cash effects are investing or financing cash flows.	(21,912)	(33,408)
Total Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(41,131)	(56,008)

44. CASH FLOW STATEMENT - OPERATING ACTIVITIES

	2016/17 £000	2015/16 £000
Interest Received	3,130	1,786
Interest Paid	(35,096)	(26,570)
Net Interest Paid	(31,966)	(24,784)

Notes to the Core Financial Statements

45. CASH FLOW STATEMENT - INVESTING ACTIVITIES

	2016/17 £000	2015/16 £000
Purchase of Property, Plant and Equipment, investment property and intangible assets	(32,518)	(71,997)
Purchase of short and long term investments	(495,017)	(350,200)
Other payments for Investing Activities	(6,424)	(8,000)
Proceeds from the sale of property plant and equipment, investment property and intangible assets	19,364	22,668
Proceeds from short-term and long-term investments	445,000	350,000
Other Receipts from Investing Activities	28,804	26,993
Net Cash Flows from Investing Activities	(40,791)	(30,536)

46. CASH FLOW STATEMENT - FINANCING ACTIVITIES

	2016/17 £000	2015/16 £000
Cash receipts of short and long term borrowing	918	879
Other receipts from financing activities	0	0
Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(7,706)	(8,743)
Repayment of Short-Term and Long-Term Borrowing	(1,263)	0
Other payments for financing activities	1,909	(1,170)
Net Cash Flows from Financing Activities	(6,142)	(9,034)

Housing Revenue Account

SECTION 4 - HOUSING REVENUE ACCOUNT

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

COMPREHENSIVE INCOME AND EXPENDITURE ACCOUNT

	2016/17 £000	2015/16 £000	Note
INCOME			
Gross Rent - Dwellings	(71,539)	(72,402)	1
Gross Rent - Other Housing Properties	(3,088)	(3,187)	1
Charges for Services and Facilities	(11,355)	(9,602)	1
Housing Subsidy and Government Grants	(10,353)	(10,353)	2
Contribution towards Expenditure	(1,934)	(3,946)	4
Total Income	(98,269)	(99,490)	
EXPENDITURE			
Supervision and Management - General Expenses	33,863	30,952	5
Supervision and Management - Special Expenses	4,862	6,171	5
Repairs and Maintenance	31,866	32,406	6
Rent, Rates and Other Charges	544	486	8
Rent Rebate Subsidy Shortfall	0	0	3
Contribution to Doubtful Debts Provision	409	474	7
Depreciation - Dwellings	20,426	29,444	10
Depreciation - Other Housing Assets	725	668	10
Impairment of Non Current Assets	438	0	
Debt Management Expenses	26	26	
Total Expenditure	93,159	100,627	
Net Cost of Services included in the Council's Income and Expenditure Account	(5,110)	1,137	
HRA Services share of Corporate and Democratic Core Costs	134	134	
Net Cost of HRA Services	(4,976)	1,271	
HRA share of the Operating Income and Expenditure incl.in the Comprehensive Income and Expenditure Statement			
(Gain) / Loss on Sale of HRA Non Current Assets	(9,673)	9,200	
Interest Payable and Similar Charges	7,580	8,238	11
Interest and Investment Income	(649)	(604)	
Net Pension Interest Cost	1,611	916	12
(Surplus) / Deficit for the Year on HRA Services	(6,107)	19,021	

Housing Revenue Account

HOUSING REVENUE ACCOUNT - MOVEMENT IN RESERVES STATEMENT

	2016/17 £000	2015/16 £000
Balance on the HRA at the End of the Previous Year	42,894	35,912
<u>Movement in Year</u>		
Surplus or (Deficit) for the year on the HRA Income and Expenditure Statement	6,107	(19,021)
Adjustments between Accounting Basis and Funding Basis under Statute	11,398	37,871
Net Increase or (Decrease) before Transfers (To) / From Reserves	17,505	18,850
Transfers (To) / From Reserves	(3,277)	(11,868)
Increase or (Decrease) in Year on the HRA	14,228	6,982
Balance on the HRA at the End of the Year	57,122	42,894

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

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

Housing Revenue Account

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

This is the total rent collectable for the year after allowance is made for empty property. At 31 March 2017, 0.52% of lettable property was empty (0.61% at 31 March 2016). These figures for empty property exclude accommodation for the homeless and dwellings designated for sale, major works and improvements. Average rents were £97.58 in 2016/17 and £98.42 per week in 2015/16.

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 14,256 dwellings as at 31 March 2017 (14,390 as at 31 March 2016).

There have been no stock transfers undertaken in 2016/17.

The stock was made up as follows:

	31/03/17	31/03/16
<u>Stock Numbers at year end</u>		
Houses and Bungalows	2,424	2,416
Flats and Maisonettes	11,832	11,974
Stock at End of Year	14,256	14,390

	2016/17	2015/16
<u>Change in Stock Numbers during the year</u>		
Stock at 1 April	14,390	14,637
Less Sales, Demolitions, etc.	(155)	(248)
Add Re-purchases, Conversions etc.	21	1
Stock at End of Year	14,256	14,390

b) Rent Arrears

	2016/17	2015/16
	£000	£000
Rent Arrears due from Current Tenants	3,129	3,113
Rent Arrears due from Former Tenants	2,178	2,145
Total Arrears	5,307	5,258
Total Arrears as % of Gross Rent of Dwellings Due	6.1%	6.1%

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

Housing Revenue Account

c) Rent – Other Housing Property

	2016/17 £000	2015/16 £000
Aerial Sites	187	394
Garages	140	179
Reception Hostels	2,592	2,527
Commercial Property	116	28
Ground Rents	53	59
Total Other Rents and Charges	3,088	3,187

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

Service charges include caretaking, grounds maintenance, communal lighting, bulk household waste removal and disposal, window cleaning, pest control and the Lewisham Tenants Levy. The average tenants' service charge was £7.84 in 2016/17 (£7.71 in 2015/16).

	2016/17 £000	2015/16 £000
Heating Charges	680	566
Leasehold Service Charges	4,879	4,445
Tenants Service Charges	5,796	4,591
Total Charges for Services and Facilities	11,355	9,602

2. GOVERNMENT HOUSING GRANTS AND SUBSIDY

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

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

	2016/17 £000	2015/16 £000
Charges for Capital	0	0
PFI Credit	10,353	10,353
Decent Homes Grant	0	0
Total Grants and Subsidy	10,353	10,353

3. REBATES

Assistance with rents is available under the Housing benefits scheme for those on low income. The scheme is administered by the Council and approximately 53% of tenants received help in 2016/17 (58% in 2015/16). 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:

Housing Revenue Account

	2016/17 £000	2015/16 £000
Rent Rebates Given (GF)	42,774	47,212
Subsidy Received on Rebates (GF)	(42,774)	(47,212)
Net cost to the HRA	0	0

4. CONTRIBUTIONS TOWARDS EXPENDITURE

	2016/17 £000	2015/16 £000
Commission on insurance and water rates	0	696
Recharges of repairs	1,073	2,280
Recharge to Capital Receipts	606	601
Hostels: Heat, Light and Water Charges	92	89
Other miscellaneous income	163	280
Total Other Income	1,934	3,946

5. SUPERVISION AND MANAGEMENTGeneral expenses

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

Special expenses

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

6. REPAIRS AND MAINTENANCE

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

	2016/17 £000	2015/16 £000
Revenue R&M works	13,992	14,162
R&M works charged to MRR	17,874	18,244
Total Repairs and Maintenance	31,866	32,406

Housing Revenue Account

7. CONTRIBUTIONS TO IMPAIRMENT ALLOWANCE

A contribution of £0.409m (2015/16 £0.474m) was transferred from the HRA to an impairment allowance to meet doubtful debts. Details of the accumulated provisions are as follows:

	2016/17 £000	2015/16 £000
Housing Tenants	4,541	4,421
Leaseholders	1,507	1,837
Commercial Properties, Miscellaneous Debts	900	991
Total Impairment Allowance	6,948	7,249

8. HRA OUTSTANDING DEBT (CAPITAL FINANCING REQUIREMENT)

Under the current HRA self-financing system, which began on 1st April 2012, there is no requirement to repay principal on housing debt. The total housing debt at 31st March 2017 was £74.8m

9. NON CURRENT ASSETS VALUATION

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

	31/03/17 £000	31/03/16 £000
Operational Assets:		
Dwellings (Existing Use Value - Social Housing)	1,229,068	1,146,314
Other Land and Buildings	14,566	13,973
Infrastructure	102	107
Vehicles, Plant and Equipment	7,413	7,374
	1,251,149	1,167,768
Investment Properties	0	0
Surplus Assets	8,864	6,139
Total Housing Assets	1,260,013	1,173,907
Full Valuation of Council Dwellings	4,916,272	4,585,256

Housing Revenue Account

10. DEPRECIATION

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

	2016/17 £000	2015/16 £000
Operational Assets		
Dwellings	20,427	29,444
Other Land and Buildings	243	294
Infrastructure	4	0
Vehicles, Plant and Equipment	477	374
Total Depreciation	21,151	30,112

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 2016/17 (£3.1m in 2015/16). It also includes £0.485m for the net cost of amortised loan redemption premiums and discounts (£0.477m in 2015/16).

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.

	2016/17 £000	2015/16 £000
Expenditure:		
Dwellings	11,065	3,757
Revenue Expenditure Funded from Capital under Statute	0	0
	11,065	3,757
Financed by:		
Capital Receipts	10,220	0
Major Repairs Reserve	845	3,757
Total Capital Expenditure Financed	11,065	3,757

Housing Revenue Account

14. MAJOR REPAIRS RESERVE

The movements on the major repairs reserve are as follows:

	2016/17 £000	2015/16 £000
Balance brought forward at start of year	37,475	29,364
Transferred in (depreciation dwellings)	21,151	30,112
Financing of capital expenditure on housing assets	(845)	(3,757)
Financing Major Revenue Repairs	(17,874)	(18,244)
Contributions from Revenue (Capital)		0
Balance carried forward at end of year	39,907	37,475

15. HOUSING REVENUE ACCOUNT RESERVES AND BALANCES

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

	Balance at 31/03/16 £000	Transfers In £000	Transfers Out £000	Balance at 31/03/17 £000
Property and Stock Related Reserves	4,984	584	(881)	4,687
Staff Related Reserves	750	0	0	750
Other Earmarked Reserves	37,160	14,526	0	51,686
Total Reserves and Balances	42,894	15,110	(881)	57,123

Collection Fund

SECTION 5 - THE COLLECTION FUND

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

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

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

	2016/17			2015/16			Note
	Council Tax	NDR	Total	Council Tax	NDR	Total	
	£000	£000	£000	£000	£000	£000	
INCOME							
Income from Council Tax (net)	116,837		116,837	109,442		109,442	4
Income from Non-Domestic Rates (net) *		52,849	52,849		53,187	53,187	5
Income from Non-Domestic Rates (net) - BRS *		1,335	1,335		1,216	1,216	5
TOTAL INCOME	116,837	54,184	171,021	109,442	54,403	163,845	
EXPENDITURE							
Precepts and Demands upon Fund (C. Tax)							
- London Borough of Lewisham	86,590		86,590	80,084		80,084	
- Greater London Authority **	21,674		21,674	22,280		22,280	
Precepts and Demands upon Fund (NDR)							
- London Borough of Lewisham		15,515	15,515		16,452	16,452	
- Greater London Authority		10,426	10,426		10,968	10,968	
- Central Government		26,064	26,064		27,420	27,420	
- Cost of Collection Allowance		303	303		307	307	
Business Rate Supplement (BRS)							
- Paid to Greater London Authority		1,334	1,334		1,212	1,212	
- Administrative Costs		3	3		4	4	
Bad and Doubtful Debts							
- Net adj to Impairment Allowance	2,813		2,813	1,729		1,729	6a
- Net adj to Impairment Allowance		(811)	(811)		(37)	(37)	6b
- Amounts Written Off	101		101	799		799	
- Amounts Written Off		807	807		1,369	1,369	
Contributions from previous year							
- London Borough of Lewisham	2,938		2,938	4,864		4,864	
- Greater London Authority **	817		817	1,372		1,372	
Provision for Appeals							
- Net contribution		487	487		295	295	
TOTAL EXPENDITURE	114,933	54,128	169,061	111,129	57,990	169,119	
Deficit / (Surplus) for the year	(1,904)	(56)	(1,960)	1,687	3,587	5,274	3
Deficit / (Surplus) at start of year	(4,109)	5,876	1,767	(5,796)	2,289	(3,507)	3
Deficit / (Surplus) at end of year	(6,013)	5,820	(193)	(4,109)	5,876	1,767	

* The 2015/16 figures have been restated to show separately the Business Rates Supplement (BRS) amount of £1,216k

** The 2015/16 figures have been restated to show separately the Greater London Authority (GLA) amount of £1,372k

Collection Fund

NOTES TO THE COLLECTION FUND

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

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

The tax base used in setting the Council Tax is set by the end of January for the following financial year. It is based on the actual number of dwellings on the Valuation List that fall within each valuation band. The total in each band is adjusted for exemptions, single person occupancy discounts, discounts for second homes and long term empty properties, disabled band relief and new properties. The total for each band is then expressed as a "Band D" equivalent number by multiplying the resulting total by the relevant band proportion. The tax base for 2016/17 assumed a collection rate of 96.0% (96.0% for 2015/16).

The table below sets out the original tax base calculation for 2016/17 and has been prepared in accordance with The Welfare Reform Act that abolished the system of council tax benefits and replaced it with the Council Tax Reduction Scheme (CTRS) with effect from 1st April 2013.

Council Tax Band	Property Value £000	2016/17		Band D Ratio	2016/17		2015/16	
		No. of Properties			Band D Equivalents as per Ratio No.	Council Tax Charge £	Band D Equivalents as per Ratio No.	Council Tax Charge £
		Actual Number (1)	Adjusted Number (2)					
A	up to 40	7,470	4,038	6/9	2,691.8	919.11	2,455.2	903.57
B	40 - 52	33,152	21,364	7/9	16,616.3	1,072.29	15,658.2	1,054.16
C	52 - 68	42,944	31,435	8/9	27,942.6	1,225.47	26,720.5	1,204.75
D	68 - 88	25,501	20,873	1	20,872.8	1,378.66	20,345.0	1,355.35
E	88 - 120	7,293	6,320	11/9	7,724.3	1,685.02	7,577.0	1,656.54
F	120 - 160	2,725	2,508	13/9	3,623.0	1,991.40	3,599.1	1,957.73
G	160 - 320	1,283	1,210	15/9	2,016.3	2,297.76	1,999.1	2,258.92
H	over 320	166	157	18/9	313.5	2,757.32	319.0	2,710.70
Totals		120,534	87,904		81,800.6		78,673.1	
Add: Contributions in lieu					0.0		0.0	
Total Band D Equivalents					81,800.6		78,673.1	
Estimated Collection Rate					96.0%		96.0%	
NET COUNCIL TAX BASE					78,528.6		75,526.2	

2. COLLECTION FUND SURPLUS OR DEFICIT

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

Collection Fund

3. COLLECTION FUND BALANCE SPLIT INTO ITS ATTRIBUTABLE PARTS

	(Surplus)/ Deficit			(Surplus)/ Deficit	
	Balance at 31/03/15 £000	Movement in 2015/16 £000	Balance at 31/03/16 £000	Movement in 2016/17 £000	Balance at 31/03/17 £000
Council Tax					
London Borough of Lewisham	(4,523)	1,303	(3,220)	(1,622)	(4,842)
Greater London Authority	(1,273)	384	(889)	(282)	(1,171)
	(5,796)	1,687	(4,109)	(1,904)	(6,013)
Non-Domestic Rates					
London Borough of Lewisham	687	1,077	1,764	(17)	1,747
Greater London Authority	458	717	1,175	(11)	1,164
Central Government	1,144	1,793	2,937	(28)	2,909
	2,289	3,587	5,876	(56)	5,820
Collection Fund Balances	(3,507)	5,274	1,767	(1,960)	(193)

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

	2016/17		2015/16
	£000	£000	£000
Gross Council Tax Income Due		156,659	150,100
Less: Adjustments to charge	2,250		1,362
Exemptions	(4,106)		(3,661)
Disabled Relief	(77)		(65)
Discounts	(15,462)		(15,010)
Adjustment for Council Tax Reduction Scheme	(22,427)		(23,285)
		(39,822)	(40,658)
Total Due from Council Tax payers		116,837	109,442
Other Transfers		0	0
Net Amount of Council Tax Receivable		116,837	109,442

Collection Fund

5. NON-DOMESTIC RATES

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

	2016/17		2015/16
	£000	£000	£000
Gross NDR Collectable (after voids and exemptions)		65,511	62,027
Reductions and Relief:			
Mandatory Relief	(10,942)		(7,441)
Discretionary Relief	(385)		(182)
		(11,327)	
Total Receivable from Business Rates		54,184	54,403

	2016/17	2015/16
	£m	£m
Non-Domestic Rateable Value	139.2	138.5

	2016/17	2015/16
	pence	pence
Non-Domestic Rate Multiplier	49.7	49.3
Non-Domestic Rate Multiplier (Small Business)	48.4	48.0

6. COLLECTION FUND ARREARS AND IMPAIRMENT ALLOWANCES

a) Council Tax

	31/03/17	31/03/16
	£000	£000
Council Tax Arrears	36,008	33,080
Impairment Allowance	(33,430)	(30,617)
As a Percentage of Arrears	92.8%	92.6%

	2016/17		2015/16	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Arrears				
Year of Accounts	6,229	17	5,979	18
Under 2 Years old	4,384	12	4,175	13
Under 3 Years old	3,708	10	3,886	12
Under 5 Years old	6,348	18	5,683	17
Over 5 Years old	15,339	43	13,357	40
Total	36,008	100	33,080	100

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

Collection Fund

b) Non-Domestic Rates

	31/03/17 £000	31/03/16 £000
NDR Arrears	3,957	4,959
Impairment Allowance	(2,338)	(3,064)
As a Percentage of Arrears	59.1%	61.8%

	2016/17		2015/16	
	Amount £000	Percentage %	Amount £000	Percentage %
Age of Arrears				
Year of Accounts	1,458	37	1,338	27
Under 2 Years old	585	15	881	18
Under 3 Years old	316	8	835	17
Under 5 Years old	714	18	1,304	26
Over 5 Years old	884	22	600	12
Total	3,957	100	4,959	100

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

Group Accounts

SECTION 6 – GROUP ACCOUNTS

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

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

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

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

Group Accounts

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

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

Group Accounts

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

YEAR ENDING 31ST MARCH 2016	General Fund Balance £000	Earmarked GF Reserves £000	Housing Revenue Account £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2015 Brought Forward	13,000	141,112	39,268	48,191	29,364	10,958	281,893	698,071	979,964
Movement in Reserves during 2015/16									
Surplus or (Deficit) on the provision of services	37,259	290	(19,021)	0	0	0	18,528	0	18,528
Other Comprehensive Income and Expenditure	0	0	972	0	0	0	972	414,186	415,158
Total Comprehensive Income and Expenditure	37,259	290	(18,049)	0	0	0	19,500	414,186	433,686
Adjustments between accounting basis and funding basis under regulations	(25,577)	0	37,871	9,040	26,597	(2,809)	45,122	(14,768)	30,354
Net Increase / Decrease before Transfers to Earmarked Reserves	11,682	290	19,822	9,040	26,597	(2,809)	64,622	399,418	464,040
Transfers to / from Earmarked Reserves	(11,682)	11,682	(11,868)	0	(18,486)	0	0	0	0
Increase / (Decrease) in 2015/16	0	11,972	7,954	9,040	8,111	(2,809)	34,268	399,418	433,686
Balance at 31 March 2016 Carried Forward	13,000	153,084	47,222	57,231	37,475	8,149	316,161	1,097,489	1,413,650

Group Accounts

GROUP BALANCE SHEET AS AT 31ST MARCH 2017

31/03/2016 £000		31/03/2017 £000
	Property, Plant & Equipment	
1,146,313	Council dwellings	1,229,068
798,606	Other land and buildings	790,795
30,865	Vehicles, plant, furniture and equipment	29,292
110,282	Infrastructure	114,893
7,155	Community	4,982
75,657	Surplus Assets not held for Sale	76,893
29,462	Assets under Construction	26,494
2,198,340		2,272,417
257	Heritage Assets	257
13,913	Investment Property	14,872
2,189	Long term investments	2,049
6,351	Long term debtors	6,377
2,221,050	Total Long Term Assets	2,295,972
230,762	Short Term Investments	280,731
241	Inventories	229
58,154	Debtors	48,162
101,821	Cash and Cash Equivalents	94,276
3,134	Prepayments	3,637
394,112	Current Assets	427,035
3,180	Bank Overdraft	3,717
35,671	Short term borrowing	26,854
3,347	Provisions	3,789
72,194	Creditors	79,600
69,974	Receipts in advance	76,789
7,706	PFI Liabilities due within one year	7,580
192,072	Current Liabilities	198,329
2,423,090	Total Assets less Current Liabilities	2,524,678
157,682	Long term borrowing	166,126
8,347	Provisions	4,843
240,061	Deferred PFI Liabilities	236,196
1,544	Capital Grants Receipts in Advance	1,616
601,806	Liability related to defined benefit pension scheme	644,264
1,009,440	Long Term Liabilities	1,053,045
1,413,650	NET ASSETS	1,471,633
	Usable Reserves	
13,000	General Fund Balance	13,000
152,528	Earmarked Revenue Reserves	149,577
4,328	Lewisham Homes Reserves	6,563
556	Catford Regeneration Partnership Reserves	914
42,894	Housing Revenue Account	57,123
57,231	Usable Capital Receipts Reserve	55,495
37,475	Major Repairs Reserve	39,907
8,149	Capital Grants Unapplied	14,132
316,161		336,711
	Unusable Reserves	
810,637	Revaluation Reserve	891,997
(601,806)	Pensions Reserve	895,587
899,650	Capital Adjustment Account	95
100	Deferred capital receipts	(3,841)
(4,627)	Financial Instruments Adjustment Account	(644,264)
(1,838)	Collection Fund Adjustment Account	3,096
(4,627)	Short Term Compensated Absences Account	(7,748)
1,097,489		1,134,922
1,413,650	TOTAL RESERVES	1,471,633

Group Accounts

GROUP CASH FLOW STATEMENT FOR THE YEAR ENDING 31ST MARCH 2017

2015/16 £000s		2016/17 £000s
19,513	Net surplus or (deficit) on the provision of services	(24,226)
93,635	Adjustment to surplus or deficit on the provision of services for noncash movements	105,776
(56,021)	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(42,699)
57,127	Net Cash flows from operating activities	38,851
(44,575)	Net Cash flows from Investing Activities	(40,791)
(1,034)	Net Cash flows from Financing Activities	(6,142)
11,518	Net increase or (decrease) in cash and cash equivalents	(8,082)
87,123	Cash and cash equivalents at the beginning of the reporting period	98,641
98,641	Cash and cash equivalents at the end of the reporting period	90,559

Group Accounts

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

The Group Accounts should be read in conjunction with the Lewisham Council single entity accounts on pages 3 to 85. Only notes to the accounts that are materially different from the single entity accounts are produced for the group accounts.

2. Group Boundary

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

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

3. Accounting Policies

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

4. Investment Properties

Whilst the Council has no investment properties, CRPL owns Catford shopping centre and several surrounding properties. As these properties were solely being used to generate income at 31 March 2017, under the code of practice they are classed as investment properties.

The fair value of the properties owned by CRPL as at 31 March 2017 was £14.872m.

5. Pensions

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

Glossary of Terms Used in the Accounts

SECTION 7 - GLOSSARY OF TERMS USED IN THE ACCOUNTS

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

Glossary of Terms Used in the Accounts

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

Glossary of Terms Used in the Accounts

COMMON ACRONYMS USED IN THE ACCOUNTS

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

Pension Fund Accounts

PENSION FUND ACCOUNTS

To Follow

ANNUAL GOVERNANCE STATEMENT

ANNUAL GOVERNANCE STATEMENT

To Follow

Lewisham
Annual Governance Statement
2016/17

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

How has this statement been prepared?

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

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

- A review of the Council's Local Code of Corporate Governance by the Standards Committee, with reference to CIPFA/Solace Guidance.
- Referral of the Annual Governance Statement to full Council with the Statement of Accounts.
- Sign off by the Chair of the Council and Chief Executive, once approved.
- This year, the Council's governance arrangements have operated as designed.

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.

What are the Council's governance arrangements?

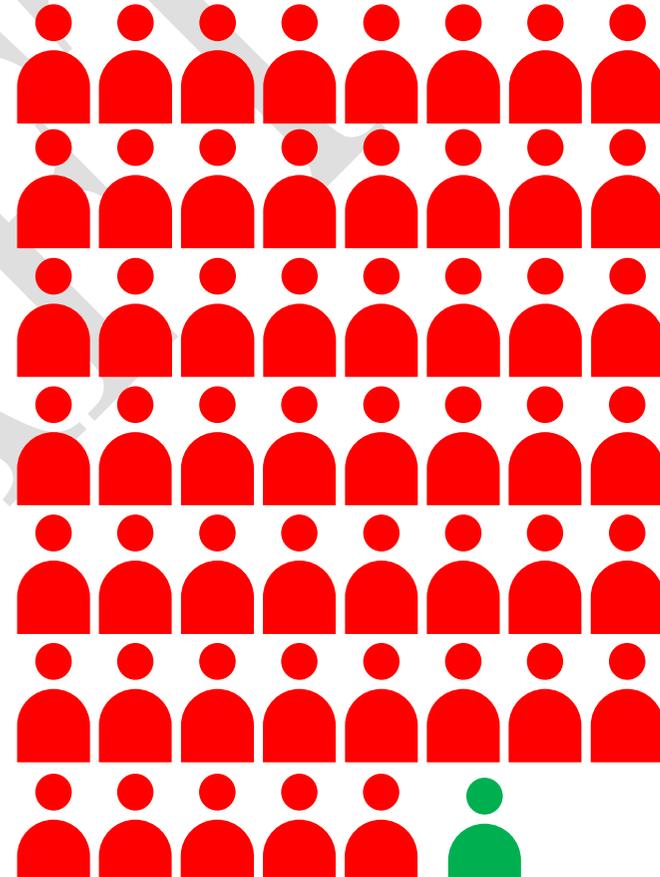
The Council's governance arrangements aim to foster effective leadership and high standards of behaviour; a culture based on openness and honesty; and an external focus on the needs of service users and the public. The diagram on page 5 shows the Council's external facing governance structure, as set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

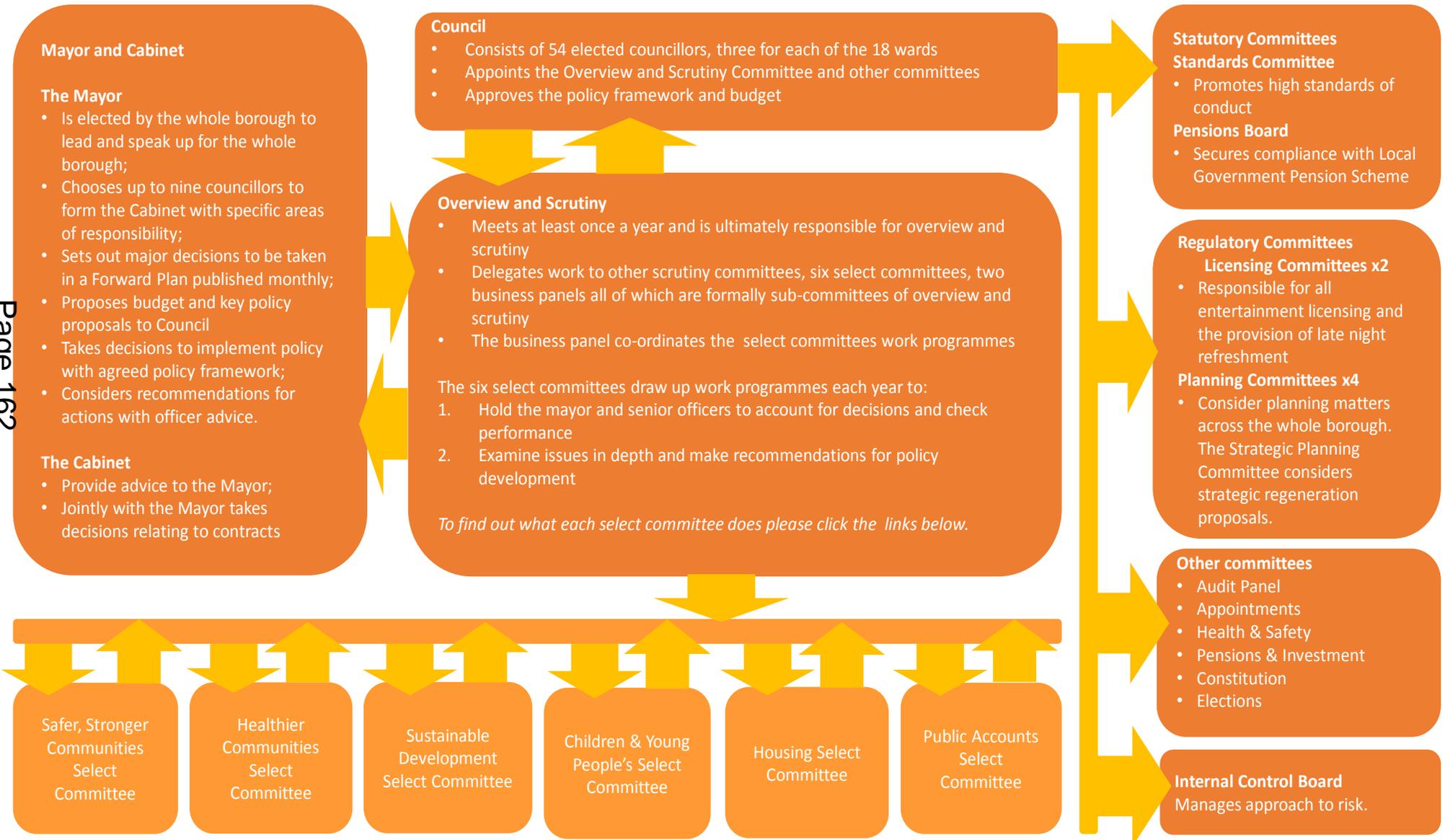
The Council has worked closely with its partners, both strategic and operational. The Council has two statutory partnership boards: the Safer Lewisham Partnership which works to protect the community from crime and help people feel safer; and the Health and Wellbeing Board which works to identify local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



1 Mayor (Labour)



54 Councillors (53 Labour, 1 Green Party)



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

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Communicating and reviewing the Council’s vision

The Council has an overarching vision for the borough which is shared by its key partners and which was developed following extensive consultation with the community: **‘Together we will make Lewisham the best place in London to live, work and learn’**.

The Sustainable Community Strategy (SCS) 2008-20 outlines how all partners will work towards the vision by contributing to six key priorities:

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

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

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

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

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

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

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

Delivering quality services

The Council seeks to use its resources efficiently and effectively to provide quality services which help deliver its vision for the borough. In the 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 **23 performance indicators**, grouped according to the Council's ten corporate priorities, and associated risks. The report uses Red exception reporting to focus attention on areas of poor performance or high risk and is a critical tool for supporting decisions across the organisation. The report is seen by the Executive Management Team (EMT) monthly and the Public Accounts Select Committee and Mayor & Cabinet quarterly and is published on the Council website. The appropriateness of these measures is reviewed annually. The quality of services for users is also measured through satisfaction surveys and information from

the complaints and management resolution processes. In addition, where areas for improvement are identified, the Council acts swiftly to address them. For example, following the Full Joint Inspection of Youth Justice Work in September 2016, 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.

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 2016 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’

Page 166

Decision making

The constitution requires councillors to follow formal procedures when taking decisions to make sure that decisions are made transparently and openly. This includes declaring if they have a personal interest in the matters under discussion and, if required, withdrawing from the room whilst the decision is taken. Reports are produced in a standard format to ensure that report authors address all significant considerations such as the legal, financial and equalities implications of decisions. The minutes of every formal meeting are published on the Council website.

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

The constitution sets out which decisions are referred to Full Council. In 2016/17 Full Council received a report, which recommended that an independent inquiry be established to investigate matters related to the Council’s proposed

compulsory purchase order of land at New Bermondsey/ Surrey Canal.

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 and the annual opinion of the Head of Internal Audit was:

*"[having] 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"*

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..."

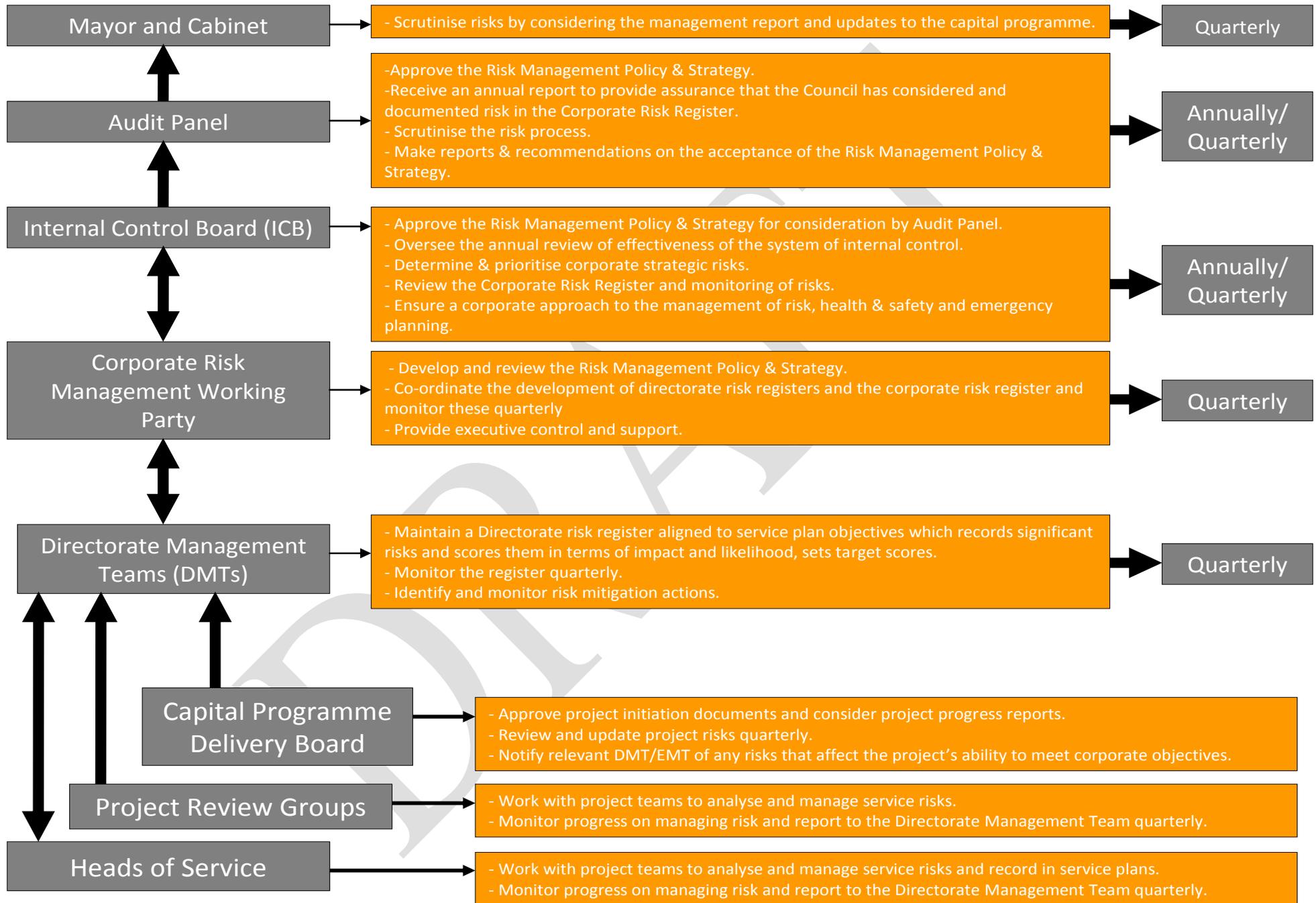
Audit Panel

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

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Compliance

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

Training and Development

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

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

Engaging the community and partners

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

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

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

audit of accounts; the pay policy; and Council decisions. The arrangements for strategic partnership working are set out earlier in this statement. Periodically the Council also engages in wide consultation and communication activities.

How do we know our arrangements are working?

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

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

- Consideration by EMT of a full range of governance and performance issues throughout the year, including issues relating to the improvement of the Internal Audit Service and scrutiny of performance and risk (ensuring management action is taken where necessary).
- Consideration of the following reports by the Standards Committee:
 - Compliance with the Member Code of Conduct (November 2016)
 - Review of Whistle-blowing Policy (November 2016)
 - Review of Compliance with the Council’s Code of Corporate Governance (July 2016)
- 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 key policy and priority changes for Lewisham, following the General Election in June 2017.
- 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.
- Consider the outcomes of the Independent Inquiry of New Bermondsey/ Surrey Canal

Signed

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DRAFT

Draft Pension Fund Accounts

OK
JRS.
2-6-17

**DRAFT
PENSION
FUND
ACCOUNTS

2016/17**

Draft Pension Fund Accounts

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

Draft Pension Fund Accounts

PENSION FUND ACCOUNTS

FOREWORD

This Pension Fund Statement of Accounts details the financial position and performance of the Lewisham Pension Fund for the year 2016/17.

The Pension Fund's value increased over the year by £233.1m (22%), mainly due to an increase in market 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 2016.

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

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

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

www.lewishampensions.org

Draft Pension Fund Accounts

ACCOUNTING POLICIES

The Pension Fund accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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 later in the year to comply with this deadline.

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

- (a) **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 IAS 26 Retirement Benefit Plans outlined in the 2016/17 Local Authority Code of Practice and in accordance with the provisions of IAS 39 Financial Instruments: Recognition and Measurement. The market value of equity investments is based on the official closing data, in the main, with last trade data being used in a small number of countries. Unitised equities are quoted based on last trade or official closing price. Northern Trust, the Fund's custodian, sets out its pricing policies in a document entitled "Asset pricing guidelines" which details its pricing process and sets out preferred pricing sources and price types.
- (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 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.

Draft Pension Fund Accounts

- (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 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.
- (f) Property – The Fund does not have any direct investments in property, but does use a property Fund of Funds manager, Schrodgers, to invest in pooled property funds. The Schrodgers 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 Real Continental European Fund. The net asset value is derived from the net asset value of the underlying funds. Like the UK, the values of the underlying assets are assessed by professionally qualified valuers. Valuation practices will differ between countries according to local Generally Accepted Accounting Practices. The frequency of independent valuations varies. All the property funds are independently valued on a rolling basis at least annually.
- (g) Financing Fund - 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 March 2017 is the actual fair value using the latest available valuation on or after 31 December 2016, plus an estimated valuation for the period up to 31 March 2017.
- (h) Contributions – These represent the total amounts received from the employers and employees within the scheme. From 1 April 2016 the employee contribution bands (revised annually in line with inflation) are as follows:

Full time pay for the post	Contribution rate 16/17
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%

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 2016/17 is 22.5% and for 2017/18 it will remain unchanged.

Draft Pension Fund Accounts

- (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 2016.

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

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

* Consumer Price Index

** Guaranteed Minimum Pension

With effect from the 1 April 2016, the actuarial review carried out for 31 March 2013 resulted in increases to the Council's contribution rate up to 22.5%) for 2016/17.

The triennial valuation on the 31 March 2016 revealed that the Fund's assets, which at 31 March 2016 were valued at £1,941 million, were sufficient to meet 78%

Draft Pension Fund Accounts

(71% in 2013) of the past service liabilities valued at £1,328 million (£1,215 million in 2013) accrued up to that date. The resulting deficit as at the 2016 valuation was £288 million (£348 million in 2013).

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 £1,847 million as at 31 March 2017 (£1,570 million as at 31 March 2016).
- (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.
- (p) The accounts for 2016/17 have adopted the recommendations of CIPFA's "Accounting for Local Government Pensions Scheme Management Expenses" (2016), and as such all expenses relating to investment management, administration and oversight and governance are recorded in one line on the face of Fund Account under Management Expenses, and a breakdown disclosed in the notes to the accounts. For comparative purposes, these changes have been applied retrospectively to the 2015/16 balances, although the changes are not material for a prior period adjustment to take place.
- (q) 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.

Draft Pension Fund Accounts

(r)

Fund Manager	Assets	Assets Value 2016/17 £'000	Assets Value 2015/16 £'000	Proportion of Fund 2016/17 (%)
Schroders Property	Property	100,946	97,527	7.9
HarbourVest	Private Equity	49,481	41,247	3.9
UBS	Passive Equity and Bonds	544,085	430,848	42.7
Blackrock	Passive Equity and Bonds	549,121	432,402	43.1
M&G	Credit	8,822	14,869	0.7
Securities Lending	Securities Lending	119	109	-
Unallocated Funds	Cash	18,662	24,358	1.5
Lewisham	Cash and Net Current Assets	3,333	68	0.2
Total Fund		1,274,569	1,041,428	100.0

- (s) 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.
- (t) 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.
- (u) Critical judgements in applying accounting policies and assumptions made about the future and other major sources of estimation uncertainty – The statement of accounts contain critical judgements in applying accounting policies and estimated figures based on assumptions made by the authority about the future or that are otherwise uncertain. There are two areas in the accounts where critical judgements are applied which are materially significant to the accounts:

Draft Pension Fund Accounts

- Actuarial present value of promised retirement benefits – the figure of net liability to pay pensions is based on a significant number of assumptions including the discount rate, mortality rates and expected returns on fund assets. The Pension Fund’s qualified actuary calculates this figure to ensure the risk of misstatement is minimised.
 - Private Equity valuations – the value of the Fund’s private equity holdings is calculated by the General Partners of the fund on the basis of their Valuation Policy, which follows best practice in the industry. However this is based upon a 31st December audited accounts valuation adjusted for estimated distributions and capital calls up to 31st March.
- (v) **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 as transfers-in. Further details about the AVC arrangements are disclosed in note 13 to the financial statements.

Draft Pension Fund Accounts
FUND ACCOUNT FOR THE YEAR

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

FUND ACCOUNT FOR THE YEAR ENDED
31 MARCH 2017

DEALINGS WITH MEMBERS,
EMPLOYERS AND OTHERS DIRECTLY
INVOLVED WITH THE SCHEME

Contributions Receivable:

	2016/17 £'000s	2015/16 £'000s	Note
- from Employer	33,411	30,542	1
- from Employees	9,099	9,339	1
- Reimbursement for Early Retirement	955	1,898	

Transfer Values In

2,123

1,409

Other Income

72

221

Subtotal: Income

45,660

43,409

Benefits Payable:

- Pensions	39,096	37,629	2
- Lump Sums: Retirement allowances	8,611	8,087	
- Lump Sums: Death grants	1,720	1,048	

Payments to and on account of leavers:

- Refunds of Contributions	86	(3)	
- Transfer Values Out	4,331	2,709	

Subtotal: Expenses

53,844

49,470

Subtotal: Net additions (withdrawals)
from dealings with members

(8,184)

(6,061)

Management Expenses

2,143

2,311

3

Draft Pension Fund Accounts

Subtotal: Net Additions (withdrawals) including fund management expenses	(10,327)	(8,372)	
<u>RETURNS ON INVESTMENTS</u>			
Investment Income	6,670	6,437	4
Change in market value of investments (Realised and Unrealised)	236,975	1,013	5a
Taxes on Income	(178)	(207)	
Total Net Returns on Investments	243,467	7,243	
NET INCREASE / (DECREASE) IN THE FUND DURING THE PERIOD	233,140	(1,129)	
OPENING NET ASSETS OF THE SCHEME	1,041,429	1,042,558	
CLOSING NET ASSETS OF THE SCHEME	1,274,569	1,041,429	

Draft 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 2017.

<u>NET ASSETS STATEMENT AT 31 MARCH 2017</u>	2016/17 £000s	2015/16 £000s	Note
EQUITIES			
Equities: UK	11,777	8,735	5
Equities: Global	13,805	10,714	5
	25,582	19,449	
MANAGED FUNDS			
Property	98,174	96,263	5
Equity	830,606	656,010	5
Fixed Interest	206,232	162,329	5
Index Linked	41,599	33,177	5
Other Assets	32,862	33,077	5
	1,209,473	980,856	
CASH HELD WITH CUSTODIAN	36,517	40,667	9
DERIVATIVE CONTRACTS			
Assets	0	0	7
Liabilities	0	0	7
OTHER INVESTMENT BALANCES			
Debtors: Investment Transactions	3,118	389	8
Creditors: Investment Transactions	(3,453)	0	8
TOTAL INVESTMENTS	1,271,236	1,041,361	
NET CURRENT ASSETS AND LIABILITIES			
Debtors	701	587	8
Creditors	(475)	(792)	8
Cash in Hand	3,107	273	9
TOTAL NET ASSETS	1,274,569	1,041,429	

The financial statements of the Fund do not take account of the liability to pay pensions or benefits after 31 March 2017. This liability is included within the Authority's balance sheet.

Draft Pension Fund Accounts

NOTES TO THE PENSION FUND ACCOUNTS

1. CONTRIBUTIONS RECEIVABLE

<u>Employer Contributions</u>	2016/17 £000s	2015/16 £000s
Administering	27,346	25,593
Admitted	856	557
Scheduled	5,209	4,392
	33,411	30,542

<u>Employee Contributions</u>	2016/17 £000s	2015/16 £000s
Administering	7,265	7,593
Admitted	227	222
Scheduled	1,607	1,524
	9,099	9,339

2. BENEFITS PAYABLE

	2015/16 £000s	2015/16 £000s
Administering/Admitted/Scheduled Pensions	27,886	26,187
Increases	11,218	11,442
	*39,104	*37,629

* includes Dependents Pensions

3. MANAGEMENT EXPENSES

	2016/17 £000s	2015/16 £000s
Administration Expenses	705	586
Oversight and Governance Expenses	433	456
Investment Management Expenses:		
- Transaction Costs	0	8
- Management Fees	978	1,226
- Performance Fees	0	0
- Custody Fees	27	43
	2,143	2,319

Draft Pension Fund Accounts

Management expenses for 2015/16 have been restated and reclassified in accordance with CIPFA's Accounting for Local Government Pensions Scheme Management Expenses (2016), with balances re-categorised as per the following disclosure:

2015/16 Previous Note Categorisations	2015/16	Reclassified 2015/16	Management Expenses 2016/17	2016/17
	£000s	£000s		£000s
Lewisham Administration	586	586	Administration Expenses	705
Advisory Costs (incl. Audit Fees)	448	456	Oversight and Governance Expenses	433
Bank Charges	8		Investment Management Expenses:	
Fund Managers' Fees	1226	1,226	- Fund Value Based Management Fees	978
Custodian Fees	43	8	- Transaction Costs	0
		0	- Performance Fees	0
		43	- Custody Fees	27
	2,311	2,319		2,143

The restatement reflects:

- the reclassification of £8k bank charges and £448k of advisory and audit fees to the new expense category of oversight and governance expenses.
- The movement of £43k of custodial fees to the new expense category within investment management expenses.
- The grossing up and inclusion of transaction costs of £8k previously netted off asset values.

4. INVESTMENT INCOME

	2016/17 £000s	2015/16 £000s
Cash	100	19
Equity	467	670
Fixed Interest	955	1583
Index Linked	208	376
Managed Funds (incl. Property)	4,561	3,234
Securities Lending	11	9
Other	368	546
	6,670	6,437

Draft Pension Fund Accounts

5. INVESTMENT ANALYSIS

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

Asset	Manager	31 March 2017	
		Value £'000	%
Aquila Life US Equity Index Fund	Blackrock	176,523	14.7
UBS GBL Asset Life North America Equity Tracker	UBS	173,571	14.5
Blackrock Pensions Aquila Life UK Equity Index Fund	Blackrock	115,814	9.7
UBS Asset Management Life UK Equity Tracker A Nav	UBS	110,425	9.2

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

Asset	Manager	31 March 2017	
		Value £'000	%
UK Equities			
Harbourvest GE PE Shares	Harbourvest	11,781	100
Global Equities			
Commonwealth Bank of Australia	UBS	866	6.6
Westpac BKG Corp	UBS	674	5.1
Property			
Schroder Unit TST UK Real Estate	Schroders	13,957	14.2
Blackrock UK FD	Schroders	12,032	12.2
C - Managed Pty Property Fund Units	Schroders	13,032	13.2
Hermes Property Unit	Schroders	9,926	10.1
Real Income Fund	Schroders	8,863	9.0
Standard Life Pooled Property Fund	Schroders	7,538	7.7
Mayfair Cap Pty (MCPUT)	Schroders	7,343	7.5
Multi-Let INDL Property Unit Trust	Schroders	5,679	5.8
IPIF Feeder Unit Trust Fund	Schroders	5,261	5.3
Metro Pty Unit Trust	Schroders	5,024	5.1
Managed Equities			
Aquila Life US Equity Index Fund	Blackrock	176,523	21.1
UBS GBL Asset Life North America Equity Tracker	UBS	173,571	20.7
BlackRock Pensions Aquila Life UK Equity Index	Blackrock	115,814	13.8
UBS Asset Management Life UK Equity Tracker A Nav	UBS	110,425	13.2

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Asset	Manager	31 March 2017	
		Value £'000	%
Aquila Life European Equity Index Fund	Blackrock	48,921	5.8
UBS Asset Management Life Europe Ex UK Equity Tracker	UBS	45,851	5.5
Fixed Interest			
Blackrock Pensions Aquila Over 15 Years UK	Blackrock	42,414	20.7
Blackrock AM (IE) UK Credit	Blackrock	41,475	20.3
UBS Asset Mgmt STG Corp	UBS	39,933	19.5
Aquila Life Over 5 yrs Index Fund	Blackrock	39,830	19.4
Index Linked			
UK(Govt Of) 1.25% IDX/LKD SNR 22/11/55	UBS	2,459	5.9
UK(Govt Of) 0.125% IDX/LKD SNR 22/03/68	UBS	2,365	5.7
UK(Govt Of) 0.375% IDX/LKD SNR 22/03/62	UBS	2,349	5.6
UK(Govt Of) 0.5% IDX/LKD SNR 22/03/50	UBS	2,083	5.0
UK(Govt Of) 1.125% IDX/LKD SNR 22/11/37	UBS	2,078	5.0
Others			
HIPEP VII (AIF) Partnership Fund LP	Harbourvest	8,438	25.7
Ptrs VIII Cayman Buyout	Harbourvest	7,104	21.6
Partners VIII Cayman Venture Fund LP	Harbourvest	5,584	17.0
International PE Ptrs V Cayman Ptnship Fund	Harbourvest	5,557	16.9
M&G UK Companies Financing Fund	M&G	3,224	9.8
Partners X AIF LP	Harbourvest	2,146	6.5

Draft Pension Fund Accounts

An analysis of investment movements is set out below:

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

* Includes Venture Capital, Credit Mandates and Private Equity

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 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 with a value of £29.6m.

The total value of unquoted securities held by the fund as at 31 March 2017 was £898m, this includes equities, bonds and other assets.

The total value of quoted securities held by the fund as at 31 March 2017 was £244m, this includes equities and bonds.

Draft Pension Fund Accounts

As at 31 March 2016:

5. INVESTMENT ANALYSIS	Value at	Purchases	Sales	Change in	Change in	Value at
Investments	31 March 2015	At Cost	Proceeds	Capital Value	Market Value	31 March 2016
	£000s	£000s	£000s	£000s	£000s	£000s
UK Equities	8,777	0	0		(42)	8,735
Global Equities	11,228	2,152	(1,450)	19	(1,235)	10,714
Equities	662,071	5,462	(4,511)	26	(7,038)	656,010
Property	82,286	8,907	(58)	(845)	5,973	96,263
Fixed Interest Securities	159,838	7,429	(6,446)	0	1,508	162,329
Index Linked Securities	32,410	4,845	(4,567)	0	489	33,177
Other*	65,028	5,341	(38,330)	(47)	1,085	33,077
Derivatives	0	0	0	0	0	0
	1,021,638	34,136	(55,362)	(847)	740	1,000,305
Cash deposits	23,775				273	40,667
Other Investment Balances	387					389
Total Investments	1,045,800				1,013	1,041,361

* Includes Venture Capital, Credit Mandates and Private Equity.

Draft Pension Fund Accounts

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 March 2017				31 March 2016		
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
			Financial Assets			
25,582			Equities	19,449		
			Managed Funds			
98,174			Property	96,263		
830,606			Managed Equity	656,010		
206,232			Fixed Interest	162,329		
41,599			Index Linked	33,177		
32,862			Other Assets	33,077		
0			Derivative contracts	0		
	36,517		Cash deposits		40,667	
	0		Pending Trades		0	
	(336)		Dividends & Income		389	
	645		Contributions Due		566	
	3,107		Cash Balances		273	
	118		Other Current Assets		186	
			Total Financial Assets			
1,235,055	40,051	0		1,000,305	42,081	0

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31 March 2017				31 March 2016		
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
			Financial Liabilities			
		0	Derivative Contracts			0
		0	Pending Trades			0
		0	Unpaid benefits			0
		(537)	Other current Liabilities			(957)
		(537)	Total Financial Liabilities			(957)
1,235,055	40,051	(537)	Net Financial Assets	1,000,305	42,081	(957)

Net Gains and Losses on Financial Instruments

The following table shows net gains on financial instruments:

31 March 2017 £'000		31 March 2016 £'000
	Financial Assets	
236,975	Fair Value through Profit and Loss	1,013
0	Loans and Receivables	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
236,975	Total	1,013

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.

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Values as at 31 March 2017	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	25,582	1,176,611	32,862	1,235,055
Loans and Receivables	43,443			43,443
Total Financial Assets	69,025	1,176,611	32,862	1,278,498
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(3,929)			(3,929)
Total Financial Liabilities	(3,929)			(3,929)
Net Financial Assets	65,096	1,176,611	32,862	1,274,569

Values as at 31 March 2016	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	Total
	Level 1	Level 2	Level 3	
	£'000	£'000	£'000	
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	19,449	947,779	33,077	1,000,305
Loans and Receivables	41,916			41,916
Total Financial Assets	61,365	947,779	33,077	1,042,221
Financial Liabilities				
Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(792)			(792)
Total Financial Liabilities	(792)			(792)
Net Financial Assets	60,573	947,779	33,077	1,041,429

5B. FINANCIAL RISK MANAGEMENT

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

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

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

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

The Committee has determined that the current largely passive investment management structure is appropriate and is in accordance with its latest investment strategy. However, following the most recent triennial valuation and current portfolio weighting towards equities the Committee agreed to extend the level of diversification of investments. The Fund will therefore be reducing its equity exposure in 2017/18 and increasing its holdings of other asset classes. This is set out and agreed in the Funding Strategy and Investment Strategy Statements approved by PIC towards the end of 2016/17.

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.

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a) Other Price Risk – Market

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

b) Other Price Risk – Sensitivity analysis

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

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's advisors, the Council has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

Asset Type	Potential Market Movement +/- (% p.a.)
UK Equities	9.6
Global Equities	10.3
Bonds and Index Linked	11.0
Alternatives	3.1
Property	5.0
Cash	1.3

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

Asset Type	Final Market Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£000	%	£000	£000
UK Equities	487,836	9.6	534,424	441,248
Global Equities	368,352	10.3	406,440	330,264
Bonds and Index Linked	247,831	11.0	275,018	220,644
Other Assets	32,862	3.1	101,178	31,856
Property	98,174	5.0	34,515	93,236
Cash	36,517	1.3	36,977	36,057
Total Assets*	1,271,572	**7.0	**1,363,634	**1,180,019

* This figure excludes derivatives and other investment balances.

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

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

d) Currency Risk is the risk to which the Pension Fund is exposed to fluctuations in foreign currency exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£GBP). The fund was exposed to the following significant foreign currency levels (i.e. £2m and over) as at the 31 March 2017 with the previous year in brackets:

Australian Dollars	£10.1m (£8.9m)
Euro	£15.8m (£17.2m)
Hong Kong Dollars	£4.6m (£4.2m)
US Dollars	£77.5m (£70.3m)

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

e) Currency risk – sensitivity analysis

The Fund's currency rate risk is routinely monitored by the Council and its investment advisors. In practice, this is achieved by the use of futures and forward foreign exchange contracts, which entitle and oblige the seller and holder to exchange assets or currency on a future date at a predetermined price or rate. The former are tradable on exchanges and the latter are "over the counter" agreements, which neither the purchaser nor the seller may transfer. There is no cost on entering into these contracts but the market value is established as the gain or loss that would arise at the settlement date from entering into an equal and opposite contract at the reporting date. As at 31 March 2017, 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 9.1%. This volatility is applied to the Fund's overseas assets as follows:

Asset Type	Asset Value at 31 March 2017 £'000	Change %	Value on Increase £'000	Value on Decrease £'000
Overseas Equities	368,352	9.1	401,968	334,736
Overseas Fixed Income	82,782	9.1	90,337	75,227
Other Alternatives	29,600	9.1	32,301	26,899
Total	480,734	9.1	524,606	436,862

ii) Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the Fund to incur a financial loss. This is often referred to as counterparty risk. The market values of investments generally reflect an assessment of credit risk in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund is exposed to credit risk through its underlying investments (including cash balances) and the

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transactions it undertakes to manage its investments. The careful selection and monitoring of counterparties – including; brokers, custodian and investment managers - seeks to minimise the credit risk that may occur through the failure to settle transactions in a timely manner.

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

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 2017 these assets totalled approximately £1,104m, with a further £36.5m held in cash by the custodian on behalf of the Fund and fund managers.

6. PRIOR YEAR ADJUSTMENT

No prior year adjustments have been made to these accounts.

7. DERIVATIVE CONTRACTS

As at 31 March 2017, there were no foreign exchange contracts held.

Asset Type	31 March 2017 £'000	31 March 2016 £'000
Foreign Exchange Gains		
Total Gains	0	0
Foreign Exchange Losses		
Total Losses	0	0
Total Unrealised Gains/(Losses)	0	0

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8. DEBTORS & CREDITORS

These comprise the following amounts:

Investment Transactions

Debtors	2016/17 £'000	2015/16 £'000
Equity Dividends / Income from Managed Funds	31	0
Interest and Other Income	387	389
Tax Refunds	0	0
Pending Trades	2,700	0
	<u>3,118</u>	<u>389</u>

Creditors	2016/17 £'000	2015/16 £'000
Pending Trades	(3,453)	0
	<u>(3,453)</u>	<u>0</u>

Non-Investment Transactions

Debtors	2016/17 £'000	2015/16 £'000
Contributions Due from Admitted / Scheduled Employers / Employees	659	566
Interest and Other Income	21	0
Tax Refunds	21	21
	<u>701</u>	<u>587</u>

Creditors	2016/17 £'000	2015/16 £'000
Fund Manager and Custody Fees	(251)	(172)
Consultancy / Advisory Fees	(48)	(43)
LB Lewisham	(176)	(577)
	<u>(475)</u>	<u>(792)</u>

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9. CASH AND BANK

Cash Held With Custodian

The Northern Trust Company is the Fund's global custodian and the cash is held to meet the cash flow requirements of the Fund and its managers. The total cash held as at 31 March 2017 was £36.5m (£40.7m as at 31 March 2016). Approximately £18.4m remains from the disinvestment in Investec; £8.1m of the cash held was from Harbourvest, £5.6m from M&G, £2.7m from Schroders and approximately £1.7m 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 March 2017.

10. POST YEAR END EVENTS

There were no post year end events to report. However, the Fund has completed the procurement of a new Diversified Growth Fund mandate to replace the disinvestment in Commodities (Investec), and will be re-balancing the portfolio to allocate a proportion of the fund to this new mandate shortly after year-end. In addition, a procurement exercise is underway to source a multi-asset credit manager. These rebalancing changes are consistent with the Funding Strategy and Investment Strategy Statement amendments following the triennial valuation results.

The results of the most recent triennial valuation saw the funding level improve from 71% in 2013 to 78% as at 31 March 2016. The improvement in funding position is mainly due to strong investment performance and favourable membership experience over the three year inter-valuation period. Past service liabilities increased by 9.3% on 2013 to £1,328m due to a reduction in future expected investment return, which was offset by a lower than expected pay and benefit growth (both between valuations and continuing over the longer term).

The Funding Strategy and Investment Strategy Statements were both updated and published by 1 April 2017. Amongst other considerations, the Investment Strategy Statement in particular outlines the Fund's approach to risk, Environmental, Social and Governance factors, and the pooling of investments via the London Collective Investment Vehicle. The impact of MIFID II on the Local Government Pension Scheme (LGPS) and continuing Public Sector austerity reducing active LGPS members are also likely to affect the Fund going forward.

11. COMMITMENTS

The Pension Fund was committed to the following capital contributions as at the 31 March 2017:

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Harbourvest

Fund	Amount '000	Translated £'000
Harbourvest Partners VIII – Cayman Venture Fund L.P	\$190	152
Harbourvest Partners VIII – Cayman Buyout Fund L.P	\$1,110	888
HarbourVest Partners X AIF L.P.	\$27,360	21,876
HIPEP VII (AIF) Partnership Fund L.P.	\$19,425	15,531
Harbourvest International Private Equity Partners V – Cayman Partnership Fund L.P	€875	748
Harbourvest International Private Equity Partners V – Cayman Direct Fund L.P	€180	154
Total		39,349

The Harbourvest commitments have been translated from either Euros or Dollars using exchange rates as at 31 March 2017. This compares to the total Harbourvest commitments at 31 March 2016 of £39.5m.

12. RELATED PARTY TRANSACTIONS

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

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

During the year the following declarations were made:

- Councillor John Muldoon declared an interest as a substitute member of the Shadow Advisory Board for the Local Government Pension Scheme, and as a Councillor with preserved benefits in the LGPS.

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 2017.

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

- Recharges from the Council for the in-house administration costs borne by the scheme were transacted for £612k (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.
- The salary of the Executive Director for Resources and Regeneration for 2016/17 was £174,607, including employer pension contributions of £32,071.

Draft Pension Fund Accounts

13. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVCs)

Contributing members have the right to make AVCs to enhance their pension. There are currently 42 '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.

2016/17	Total £'000	Equitable Life £'000	Clerical Medical £'000
Value at 1 April 2016	1,234	442	792
Contributions and Transfers Received	116	4	112
Investment Return	98	18	80
Paid Out	(139)	(3)	(136)
Value at 31 March 2017	1,309	461	848

2015/16	Total £'000	Equitable Life £'000	Clerical Medical £'000
Value at 1 April 2015	1,631	472	1,159
Contributions and Transfers Received	163	4	159
Investment Return	6	12	(6)
Paid Out	(566)	(46)	(520)
Value at 31 March 2016	1,234	442	792

14. SCHEDULED BODIES

The following are scheduled bodies to the Fund as at 31 March 2017, arranged in descending order by the value of their contributions in 2016/17:

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

15. ADMITTED BODIES

The following are admitted bodies to the Fund as at 31 March 2017, arranged in descending order by the value of their contributions in 2016/17:

Phoenix
Phoenix Agency Services
Youth First LTD

Draft Pension Fund Accounts

Chartwells
Skanska
3 C's Support
Quality Heating
One Housing
NSL (formerly known as National Car Parks Ltd)
Wide Horizons
Fusions Leisure Management
Change Grow Live
Excalibur Tenant Management Co-operative (Ceased 31 March 2017)
Blenheim CDP
Housing 21
Pre-School Learning Alliance
Lewisham Nexus Services
Tower Services
Chequers Contract Services – Lee Manor

16. STOCK LENDING

The Statement of Investment Principles and Investment Strategy Statement permit the Fund to enter into stock lending whereby the Fund lends other bodies stocks in return for a fee and collateral whilst on loan. Equities and fixed income assets held in segregated accounts in custody may be lent. The Fund actively lends in 50 different equity and fixed income markets worldwide.

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

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

As at the 31 March 2017 the value of aggregate stock on loan was £9.3m (£5.5m as at 31 March 2016), which has 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 £8k net of direct expenses (compared to £9k in 2015/16). The value of collateral held as at 31 March 2017 was £9.8m (£6.2m as at 31 March 2016).

Draft Pension Fund Accounts

17. MEMBERSHIP

	Active Members	Active Members	Deferred Benefits	Deferred Benefits	Retired Former Members	Retired Former Members
	2016/17	2015/16	2016/17	2015/16	2016/17	2015/16
Admin. Authority	5,814	6,049	9,679	9,045	7,098	6,939
Scheduled Bodies	916	892	825	668	243	202
Admitted Bodies	137	104	117	115	90	84
Totals	6,867	7,045	10,621	9,828	7,431	7,225

18. These accounts were authorised on
Director for Resources and Regeneration.

by the Executive

Agenda Item 7

AUDIT PANEL		
Report Title	Annual Assurance Report for 2016/17	
Key Decision	No	Item No. 7
Ward	ALL	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 20 June 2017

1. Purpose

- 1.1. The purpose of this report is to present members of the Audit Panel with the annual opinion on the effectiveness of the Council's system of internal control from the Head of Corporate Resources, in his capacity as the Head of Internal Audit (HIA).

2. Recommendation

- 2.1. Members are asked to note the annual assurance report for 2016-17.

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 2016/17 is Limited and improving (this compares to Limited and declining in 2015/16). The Schools opinion remains 'Satisfactory'.

Qualifications to the opinion

- 3.4. Sets out the circumstances to help place this opinion in the appropriate context. In 2016/17 the internal audit service did not complete as many audits as originally planned due to resourcing issues and changes to the reporting of risk may have led to gaps in the focus of the risk based audit plan.

Summary of work assurance work completed which the opinion is derived

- 3.5. The internal audit plan 2016/17 initially had 95 pieces of audit work (68 Corporate and 27 Schools), not including follow-up reviews. By the end of the year the plan had changed to 81 pieces of work (54 Corporate & 27 Schools).
- 3.6. In respect of the corporate audits, 13 of the 54 reports issued (24%) had a negative opinion; split core 3 of 17 (18%) and non-core 10 of 37 (27%). The schools audits had 2 of 27 reports (7%) with a negative opinion.
- 3.7. There were three pieces of work that were of a non-assurance nature (Grants / Advice Memo or Consultancy Review).
- 3.8. In addition, there were 33 corporate and two school follow-up reviews completed for the period.

Issues relating to the Annual Governance Statement

- 3.9. One of the three improvement areas noted in the AGS is in respect of internal control. From the internal audit recommendations in 2016/17 the common or more significant areas noted for improvement were: Budget Pressures; Procurement and Contract Management; Data Management; Human Capital; and Financial Control.

Statement of compliance with the PSIAS

- 3.10. The annual self-assessment of the compliance to the PSIAS, confirms that the service continues to meet the standards.

Quality Improvement Programme for Internal Audit

- 3.11. To include a stronger focus on advice as well as assurance work in the Audit Plan, recruit to the vacant principal auditor and trainee posts, and procure an internal audit management system.

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 2016 to Mar 2017. 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 2016/17. In my opinion, **Limited** assurance can be placed on the adequacy and effectiveness of Council's corporate internal controls framework in place and **Satisfactory** assurance can be placed on the Schools internal controls framework".
- 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. While the opinion for the 2016/17 corporate audits is the same as last year's Limited opinion, the direction of travel for 2016/17 is one of improvement. This compares favourably to 2015/16 when the direction of travel was declining from the Satisfactory assurance opinion in 2014/15.
- 6.4. I was part of the Annual Governance Statement (AGS) working party through 2016/17. 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 reported to the Internal Control Board throughout the year. I am satisfied that the content of the statement is accurate and its completion has complied with the relevant CIPFA guidance. Issues that I judged relevant, such as the effectiveness of internal control, have been considered by the group and included where necessary".

7. Qualifications to the opinion

- 7.1. There are two qualifications to the 2016/17 opinion. Firstly; the full corporate audit plan was not delivered, limiting the range of assurance relied on to derive the overall opinion. Secondly; the reporting of risks during the year was impacted by changes to the risk management process that may have led to gaps in the focus of the risk based audit plan

Internal Audit

- 7.2. During 2016/17 the first phase of the strategy to manage a more mixed economy for delivering internal audit work was implemented. This has involved establishing the new in-house team and managing the contracting of support from Mazars (via the London Borough of Croydon framework) and a specialist IT auditor for corporate audits, and the Royal Borough of Greenwich for school audits.
- 7.3. There were some changes to the in-house team during the year which were managed but with an impact on the delivery of the audit plan. This involved reducing the number of audits and reallocating work through the year to stay within budget. The focus on the core financial audits retained. However, overall this has limited the range of assurances for 2016/17 and the disruption has meant the completion of some audits is delayed to 2017/18.

Risk Management

- 7.4. Following the work in 2015/16 to reinvigorate service planning and the recording of operational risks and the impact of reorganisations on the work of the Risk Management Working Party the overall risk management arrangements were reviewed in 2016/17.
- 7.5. This resulted in changes to the way risks are reported and challenged. This involved some false starts through the quarterly cycles before arriving at arrangements that worked well and are sustainable for service, directorate and corporate levels at which risk is assessed. A consequence of these was there were some gaps in risks reported through 2016/17. The new risk management strategy is being finalised for 2017/18.

8. Summary of assurance work from which opinion is derived

Delivery of the Audit Plan - Corporate

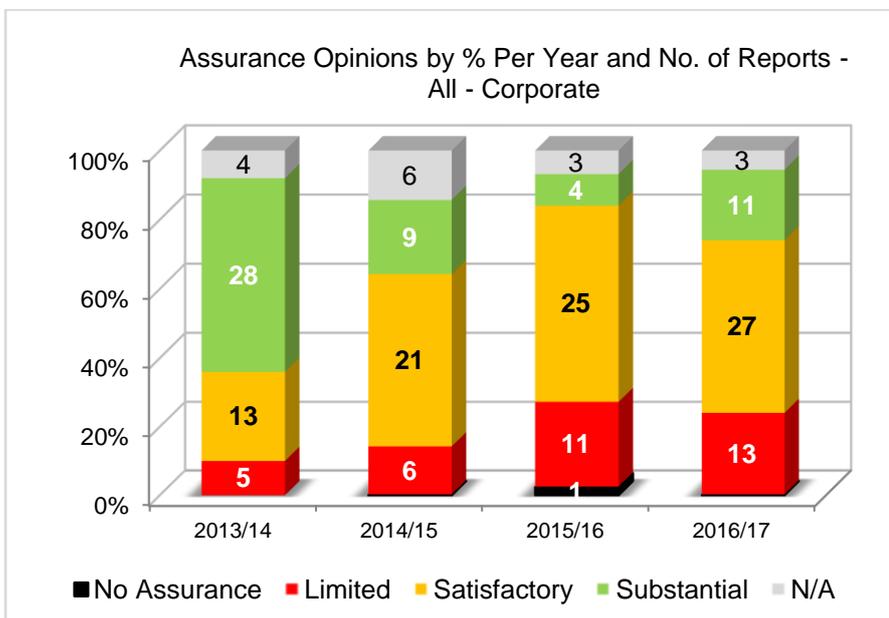
- 8.1. The internal audit plan 2016/17 initially had 95 pieces of audit work (68 Corporate and 27 Schools), not including follow-up reviews. By the end of the year this had decreased to 81 pieces of work (54 Corporate and 27 Schools).
- 8.2. The changes to the plan during the year were as follows:
- 8.3. Additional Audits / Pieces of work - New
- Street Trading Licensing
 - Better Care fund
 - Vulnerable Clients Monies - New Monitoring Process
 - Reimbursement of Expenses - Memo tying all the main points from three audits (payroll expenses, pre-paid cards and procurement cards).
- 8.4. Additional Audits – Split
- Prepaid Cards
- 8.5. Deferred to 17/18
- Pre contract and Tendering arrangements
 - MASH Arrangements (CYP)

- Blue Badges, Freedom Passes, Discretionary Passes and Taxi cards - time restraints
- Monitoring of Child Care Providers.
- Monitoring of LH
- Key Performance Indicators (KPIs) and Departmental Service Plans
- Graduates Scheme

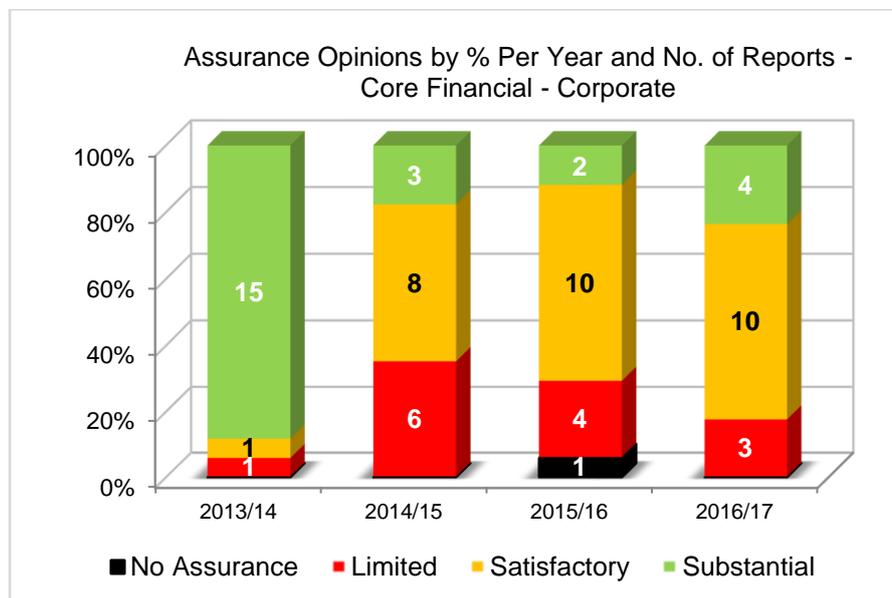
8.6. Audits no longer required

- Broadway Theatre
- Private Sector Licencing Scheme
- General Election Preparation
- Sundry Debtor System
- Denial of Liberty Safeguards
- House of Multiple Occupation
- Supporting People
- Local Support Scheme
- Home Care Provision
- Ofsted Management Areas
- Ofsted Other Areas
- Income Generation

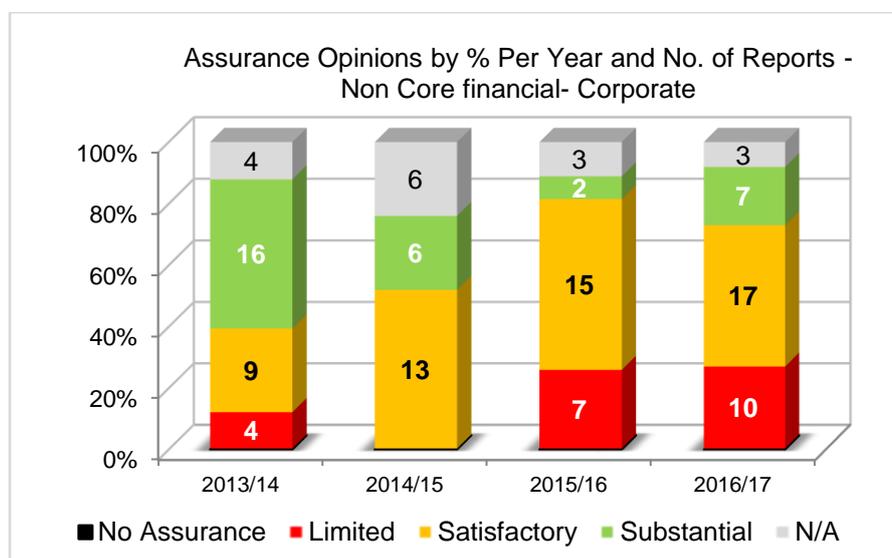
8.7. The graph below represents the percentage of audit assurance opinions (with the number of reports issued) for all corporate audits issued. The definitions of assurance opinions are Substantial, Satisfactory, Limited, and No Assurance – can be found at Appendix 4. N/A is for non-assurance work such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



- 8.8. While small number of reports are at draft report stage, 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 change to the assurance opinion as presented.
- 8.9. The results of the corporate internal audit work for 2016/17 has seen the number of negative (Limited and No Assurance) assurance reports issued increase from 12 to 13, but there have been more substantial opinions at the other end of the scale and the proportion of limited opinions has fallen from 26% to 24%.
- 8.10. The graphs below show the split of assurance opinions between Core Financial and other corporate audits is:
- Core Financial - 3 of 17 (18%) which is an improvement from the 29% from 15/16.



- Corporate (Non-core) - 10 of 37 (27%), where there is a slight decline from the seven issued (26%) for 2015/16



8.11. The core financial reports, have improved with no 'No Assurance' reports issued and three (down from four) Limited reports.

Core Financial audits - Direction of Travel

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

8.13. There were no audits that had a lower opinion, than the previous year. Four had an improved opinion, with the remaining 11 having the same opinion as last year.

Key

SUB	Substantial	SAT	Satisfactory	LTD	Limited	NAS	No Assurance
	Improved since last year		Same as previous year		Deteriorated since last year		

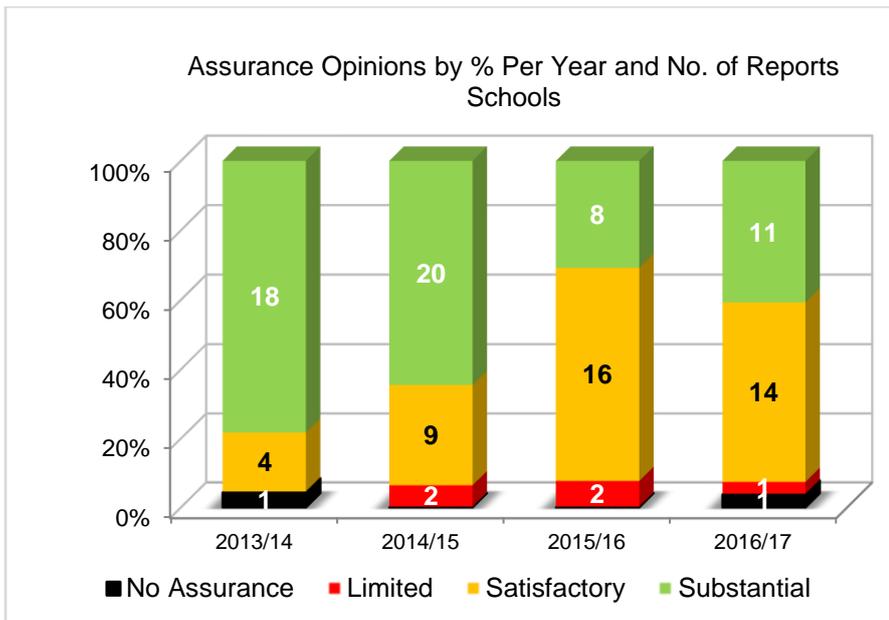
Table

Core financial system	14/15	15/16	16/17	DoT
1. Accounts payable	LTD	NAS	LTD	
2. Accounts receivable	LTD	LTD	LTD	
3. Banking	LTD	LTD	LTD	
4. Budget control and monitoring	SAT	SAT	SAT	
5. Main accounting	SAT	SAT	SAT	
6. Council tax	SUB	SAT	SAT	
7. Capital programme and expenditure	SAT	SAT	SAT	
8. Direct payments	LTD	SAT	SAT	
9. Housing benefit and CTRS	SAT	SAT	SAT	
10. Payments to Adult care providers	SAT	LTD	SAT	
11. Looked after children payments	SAT	SAT	SAT	
12. Pensions	SAT	SAT	SAT	

Core financial system	14/15	15/16	16/17	DoT
13. Non-current (fixed) assets	LTD	SAT	SAT	↔
14. Client contributions for residential & domiciliary care	LTD	LTD	SAT	↗
15. Business rates (NNDR)	SUB	SAT	SUB	↗
16. Payroll	SAT	SUB	SUB	↔
17. Treasury management	SUB	SUB	SUB	↔

Delivery of the Schools Audit Plan

- 8.14. All of the 27 schools in the original school plan were completed. With the exception of one report, all are finalised.
- 8.15. The graph below presents the school assurance opinions for the last four years. The number of Limited / No Assurance school reports remain low, with only 7% having a negative assurance opinion. The number and percentage of substantial reports have increased slightly since last year.

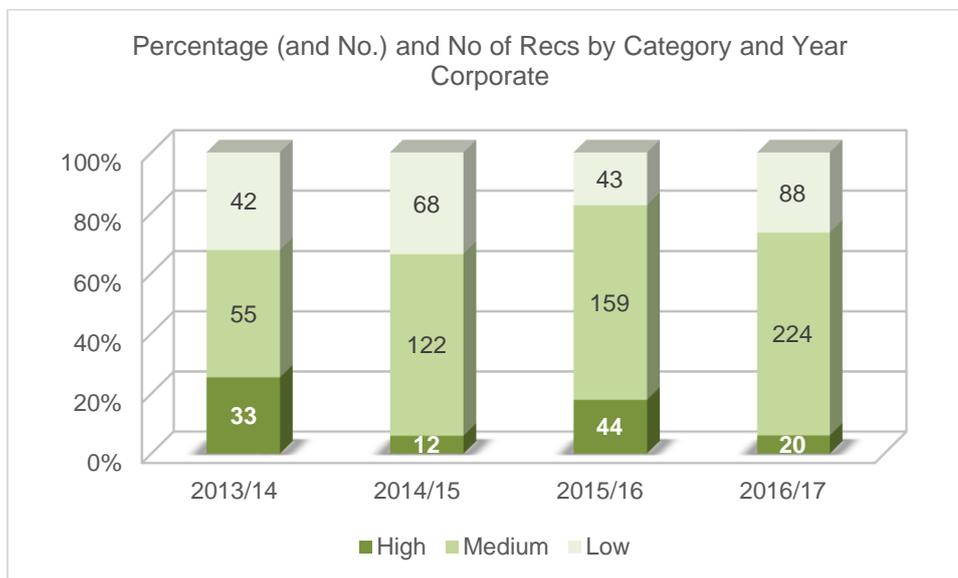


- 8.16. All schools audits are reported to the Audit Panel throughout the year (as well as the individual schools) and this is then summarised for the year and also reported to the schools led Schools Forum.

Recommendations

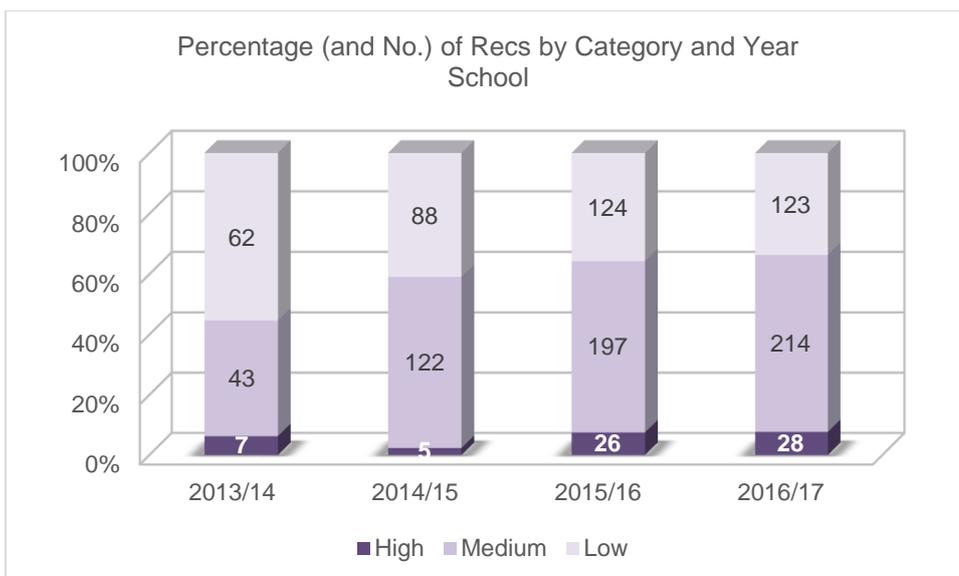
- 8.17. When internal audit make recommendations to management, they are categorised as 'High', 'Medium' or 'Low'. Definitions of these categories are provided at Appendix 4.

- 8.18. Officers are responsible for updating the progress on implementation of their Corporate High and Medium recommendations to an internal SharePoint site.
- 8.19. 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.
- 8.20. The graph below presents the percentage (and number) of recommendations made by category for all 2016/17 corporate internal audits. It shows that fewer High recommendations but more Medium recommendation were made, although the proportion of Medium recommendations remains steady at 67% (2015/16 was 65%).



Schools

- 8.21. Schools are unable to use the internal site for reporting on completion of their actions and have to provide updates manually to the Children and Young People (CYP) directorate.
- 8.22. The graph below is the same as the above, but for schools. This shows that percentage of recommendations High, Medium and Low has remained relatively similar for 2016/17 with a slight increase in the number of Medium recommendations.



Follow-ups

- 8.23. 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 audits which are reviewed at the next annual audit.
- 8.24. For schools, only those audits with a negative - Limited or No Assurance - opinion are followed-up. There were 33 corporate and two school follow-up reviews completed for the period.
- 8.25. 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
60	69	9	38	176
34%	39%	5%	22%	%

- 8.26. 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)

- 8.27. 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.
- 8.28. 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.

- 8.29. 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, but from 16/17 this will reduce to annually. The annual A-FACT report is at appendix

Risk Management

- 8.30. 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.
- 8.31. 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.
- 8.32. Through the actions noted above the Council continues to adjust its approach to risk management, seeking to maintain the quality of risk reporting in a manner that is proportionate to the management time available to sustain this work. The risk maturity review of the processes in place for 2016/17 returned an opinion of risk managed, the second highest possible level.
- 8.33. Not with standing this, during the year the process was not always fully adhered to in terms of timely and regular updates of directorate risk registers. This reflected some false starts through the quarterly reporting cycles before arriving at arrangements that work well and are sustainable for services, directorates and the corporate levels at which risk is assessed. 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 2017/18.

Other sources of assurance

- 8.34. Evidence for the effective mitigation of risk and focus on improving internal control comes from other sources than the work of internal audit. These are taken into consideration for preparing the annual assurance opinion and planning the work of internal audit for future years. For example:
- 8.35. Internally service planning, performance reporting and financial monitoring are tools available to management. As noted above service planning was adjusted in 2016/17 to strengthen the operational consideration of risk. Performance reporting was reviewed by Members and the performance management report refreshed and work undertaken to strengthen the data and performance reporting in respect of Children Social Care, following the OFSTED review in 2015/16. Financial performance, in particular key controls and effective budget monitoring, are critical risks for the organisation and a

number of projects started in 2016/17 to help strengthen these areas and address some of the re-occurring audit recommendations (e.g. Oracle ERP and debt management projects).

- 8.36. In addition the level (number and seriousness) of H&S incidents reported and insurance claims made are monitored through the year. The Council also recognises that support to employees (communication, training, monitoring and challenge) around key corporate policies and processes is key to effective control and the efficient running of the organisation. 2016/17 saw a number of projects started and the 2017/18 budget included significant further investment in some of these areas through the transformation programme. Already greater assurance around the access to and effectiveness of the Council's technology infrastructure is being recorded and further benefits will follow. These are areas for management attention and continuing improvement going forward.
- 8.37. Externally inspections and accreditation reviews and statutory transparency reporting requirements are helpful measures to assess the effectiveness of service practice and performance. In 2016/17, from the relevant bodies, the Council received positive results from its legal services accreditation and an extension to its Public Sector Network certificate. The Council's Adult Social Care services were subject to a peer review and the Lewisham enablement service was inspected by the Commission for Quality Care (CQC). These were both positive with some areas for improvement.

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

- 9.1. From a review of the internal audit recommendations made in 2016/17 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. Public sector austerity continues to impact all areas of the Council's work as services seek to do more for less for the seventh year in a row. And forecasts suggest this is likely to continue into the 2020s. Financial constraints are putting significant strain on services to adjust their spending and control arrangements to maintain good practice but in a manner proportionate to their changing priorities and available budget. This is evidenced through: a number of overspending services; controls being done less frequently/missed; timely review and approval being delayed; system and procedure arrangements not keeping pace with changing business processes; and corporate processes (e.g. HR, Finance, procurement, etc..) not always complied with.

Procurement and Contract Management

- 9.3. As noted last year, and largely for the financial reasons noted above, the Council does not always prioritise sufficient resources to ensure effective contract management arrangements are in place for monitoring suppliers. There were a number of changes to the procurement support arrangements in 2016/17 that, engaging and working with service managers, now need to

mature and prove themselves in 2017/18. In the meantime there continues to be an increased service risk of not securing quality services and value for money.

Data management

- 9.4. The stability, access and flexibility of the IT infrastructure has improved considerably through 2016/17 with the new shared service arrangements. However, there remain a number of legacy issues still to be resolved in respect of data management to fully secure the Council in respect of its obligations for data security. This includes controls around both the day to day handling of information and also archive and storage arrangements for records. The key finance and service areas where these risks have been identified are included in the 2017/18 internal audit plan.

Human Capital

- 9.5. The Council continues to implement a high number of service reorganisations and see overall staff numbers decline. This in turn throws up gaps in the effective operation of controls where key experienced and knowledgeable members of staff leave. This risk is aggravated when taken in conjunction with the points re budget pressures noted above.
- 9.6. The Council has also recognised the need to redesign and update the induction and learning and development offer to better support managers and staff to continue to work effectively in the reshaped services. This work is part of the £10m 'invest to save' transformation programme for 2017/18.

Financial control

- 9.7. In respect of the main financial processes, three of the key financial processes again received a negative assurance opinion in 2016/17. They were; banking, accounts payable and accounts receivable. The common issues were segregation of duties, timely clearing of reconciliations/suspense accounts, exception reporting and effective monitoring information. The service work on the Oracle ERP and ASH debt management projects should address these concerns but until implemented (2018/19) the control framework continues to rely on manual workarounds and operate with significant control vulnerabilities and performance effectiveness risks. These potentially impact the accuracy and timeliness of financial monitoring information, which in turn risks undermining the confidence and effectiveness of decision making.

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

- 10.1. A self-assessment against the standards is required annually, and an external independent review of the internal audit service at least every five years. The next independent is due in 2020/21.
- 10.2. In 2015/16, the external assessment confirmed that the service met the standards. Recommendations were made but these were improvements to the service rather than a requirement to meet the standards.
- 10.3. Of those recommendations outstanding from that assessment, are:

- Renaming and defining the Internal Audit Contractor Manager’s Role and responsibilities.
 - Performance management system (Assurance Mapping)
- 10.4. The Internal Audit Contract Manager’s Role is in the process of being finalised. The performance management system is still being considered, once the in-house team is fully resourced and embedded.
- 10.5. The self-assessment for 2016/17 remains compliant the PSIAS. However, there are those areas where they will continue to be only partially met, rather than fully met. They are:
- Independence of the HIA
 - Conducting Reviews where HIA has operational responsibilities
- 10.6. These issues are common among Local Authorities as they strive to merge functions to ensure that budget savings can be achieved. As previously reported, the service has recognised the risk and put in place mitigations by giving the Internal Audit Contract Manager unfettered access to the Chief Executive and the Chair of the Audit Panel for areas managed by the Head of Corporate Resources. Please see the Audit Charter for further details.

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

- 11.1. The Internal Audit Service focus for 2017/18 is to continue to progress the strategy to strengthen the in-house team and use contractors for specialist pieces of work. This will help to make the available resources stretch further and ensure better retained organisational knowledge to help support and contribute to the on-going change being driven through by management.
- 11.2. In addition, in response to the level of change and challenge at the Audit Panel, the 2017/18 internal audit plan has a stronger focus on advisory work and the service is looking at the requirement for a better internal audit management system, reflecting the higher level of in-house work.

12. Role of the Head of Internal Audit

- 12.1. CIPFA Statement on “The role of the Head of Internal Audit in public service organisations, 2010” states that the Head of Internal Audit role in a public service organisation is based on five principles:
- 1) Championing best practice in governance, objectively assessing the adequacy of governance and management of existing risks, commenting on responses to emerging risks and proposed developments;
 - 2) Giving an objective and evidence based opinion on all aspects of governance, risk management and internal control;
 - 3) Must be a senior manager with regular and open engagement across the organisation, particularly with the Leadership Team and with the Audit Committee;
 - 4) Must lead and direct an internal audit service that is resourced to be fit for purpose; and

- 5) Must be professionally qualified and suitably experienced
- 12.2. The annual review of the Head of Internal Audit concluded that all of the above principles were met.

13. Legal Implications

- 13.1. There are no legal implications arising directly from this report.

14. Financial Implications

- 14.1. There are no financial implications arising directly from this report.

15. Equalities Implication

- 15.1. There are no specific equalities implications arising directly from this report.

16. Crime and Disorder Implications

- 16.1. There are no specific Crime and Disorder implications arising directly from this report.

17. Environmental Implications

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

18. Background Papers

- 18.1. Internal Audit and A-FACT papers to the Audit Panel throughout 2015/16.

For queries on this report, please contact the Head of Corporate Resources on 020 8314 9114 or by email at david.austin@lewisham.gov.uk

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Corporate Audits

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CUS	Accounts Receivable 16/17 (Core Financial Audit)	Limited	1	9	4	Completeness of income, Documentation and Authorisation, Income recording and Debt Recovery	18/05/17
CUS	Accounts Payable 16/17 (Core Financial Audit)	Limited	2	5	-	Set up of new suppliers, Payments, Reconciliations, and Performance Indicators	16/03/17
CUS	Banking 16/17 (Core Financial Audit)	Limited	2	7	1	Payments, Cheque printing and security, Feeder systems (access) and Reconciliations	18/05/17
CUS	Data Breach Management	Limited	-	5	1	Corporate Network Vulnerability and Management	18/05/17
CUS	ICT Governance Arrangements with Brent	Limited	2	5	-	Responsibilities, Governance and Problem Solution	11/04/17
CUS	Payment Card Industry Data Security Standard (PCI DSS)	Limited	1	1	-	PCI DSS compliance requirements	17/10/16
CYP	Project Management Framework CYP	Limited	2	4	-	Project governance, Project execution and control, and Monitoring reporting.	26/01/17
CUS	Public Sector Network (PSN)	Limited	1	2	-	PSN Compliance requirement	01/02/17
RRE	Prepaid Cards	Limited	-	9	9	Transfer of funds, and Monitoring and reporting	17/03/17
COM	Business Continuity Management – Adult Care Providers	Limited	-	3	-	Contracts and agreements in relation to BCP and Monitoring and management reporting	DRAFT
RRE	Contract Management -School Minor Works Programme	Limited	2	5	2	Contract and variations, and Contract Monitoring and Management reporting	DRAFT
COM	Recording of Safe Guarding – Section 42 Referrals	Limited	-	10	2	Timeframes, and Decision Making Framework	DRAFT

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CYP	Schools' Catering Contract	Limited	-	10	-	Contract and variations, and Contract Monitoring and Management reporting	03/03/17
RRE	Capital Expenditure 16/17 (Core Financial Audit)	Satisfactory	-	3	1	Project Governance and Management, Payments, and Programme Budget and Expenditure Monitoring	05/05/17
CUS	Client Contributions for Care Provision 16/17 (Core Financial Audit)	Satisfactory	1	5	2	Eligibility and Financial Assessments, Recovery of Client contributions and Deferred Contribution Scheme	24/05/17
CUS	Council Tax 16/17 (Core Financial Audit)	Satisfactory	-	2	1	Setting of the Council Tax, Billing inc, Write offs, Refunds, Discounts, Reductions, Disregards and Liabilities, Valuation Office List and Data Protection	10/03/17
COM	Direct Payments 16/17 (Core Financial Audit)	Satisfactory	-	5	-	Assessment and Payments, Utilisation Monitoring, and Budget Monitoring	05/05/17
CUS	Housing Benefit and Council Tax Reduction Scheme 16/17 (Core Financial Audit)	Satisfactory	-	3	1	Applications, Payments, Overpayment, Debt Recovery, System Reconciliation and Exception Reporting	28/02/17
RRE	Main Accounting 16/17 (Core Financial Audit)	Satisfactory	-	4	1	Financial Systems Administration, Feeder Systems, Journals and Reconciliations and Final Accounts	29/12/16
RRE	Non-Current Assets 16/17 (Core Financial Audit)	Satisfactory	-	3	1	Asset Management, Transfer of assets, and Reconciliation	24/05/17
COM	Payment to Adult Care Providers 16/17 (Core Financial Audit)	Satisfactory	-	5	1	DPA and Statutory Requirements, Set up of provider payments, Payments, Budgetary Control	05/05/17
CYP	Payments to Child Care Providers and Foster Carers 16/17 (Core Financial Audit)	Satisfactory	-	4	3	Payments, Budgetary Control, Exception Reporting	05/05/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
RRE	Pensions 16/17 (Core Financial Audit)	Satisfactory	-	8	2	Governance Arrangements, Contributions and Payables, Investments and Management Fees and Reconciliation	08/05/17
COM	Adult Learning Lewisham	Satisfactory	-	3	1	Governance, Income, discounts and refunds, and Staffing & payments to Tutors	24/05/17
CUS	BACS and IP	Satisfactory	-	3	-	Access controls and Data loss	01/11/16
RRE	Building Control	Satisfactory	2	4	1	Processing applications, Income, Monitoring and management reporting	20/02/17
RRE	Better Care Fund	Satisfactory	-	4	1	Governance and Risk Management, Performance Management and Data Quality, and Financial Structure	23/01/17
RRE	Expenses Reimbursed by Payroll	Satisfactory	-	4	1	Expense claims and Authorisation process	30/01/17
RRE	Gifts and Hospitality and Declaration of Interests for Officers and Members	Satisfactory	-	3	1	Governance, Register of Interests and Gifts and Hospitality	28/11/16
CUS	ICT Strategy	Satisfactory	-	6	-	Creation of the Strategy, and Implementation of the Strategy	01/06/17
CUS	Lewisham Website and Internet Content Usability	Satisfactory	-	9	9	Website content, Website publishing controls, Intranet content, and Intranet publishing controls	22/12/16
COM	Licensing - Gambling and Alcohol	Satisfactory	-	7	7	Governance and reporting, Processing of licence applications, Income, and Monitoring and enforcement	21/09/16
CUS	Licensing - Forecourt Trading	Satisfactory	-	7	5	Governance and management reporting, Processing license applications, Payments for licenses an Enforcement and monitoring.	20/02/17
CUS	Mobile Devices - Contract Monitoring	Satisfactory	2	3	1	Assets and Stock Control	09/06/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
CUS	PayPal Post Implementation	Satisfactory	1	5	-	Application Management, System security, Logging and monitoring, Interface controls, data input, data output, change control, System resilience and recovery, and Support Arrangements	05/05/17
RRE	Procurement Card Expenditure	Satisfactory	-	7	2	Card expenditure and Card administration	12/01/17
RRE	Regeneration and Procurement Board	Satisfactory	-	5	1	Board decisions and Monitoring and reporting	15/12/16
CUS	Vehicle Fleet - Purchase, and Fuel Tank maintenance at Wearside	Satisfactory	1	7	3	H&S, Vehicles Maintenance, Fuel Consumption	DRAFT
CUS	Virtual Private Network (VPN) / Mobile Working	Satisfactory	-	6	-	Corporate network vulnerable and Corporate network management	31/10/16
CUS	Vulnerable Clients Monies – New Monitoring Process	Satisfactory	-	2	4	Payments Process, Accounting Monitoring	11/05/17
RRE	Budget Monitoring 16/17 (Core Financial Audit)	Substantial	-	2	1	Budget Setting, Loading and Virements, Budgetary Controls, and Management Reporting	03/03/17
CUS	Business Rates (NNDR) 16/17 (Core Financial Audit)	Substantial	-	1	-	Setting of the Business rates, Billing, Liabilities, Discounts, Reliefs and Collection Recovery and Enforcement	10/03/17
RRE	Payroll 16/17 (Core Financial Audit)	Substantial	-	1	-	Starters and Leavers, Benefits, Deductions, Amendments and Payments	22/11/16
RRE	Treasury Management 16/17 (Core Financial Audit)	Substantial	-	-	1	Cash Flow Forecasting, Investments and Loans Recording, Unauthorised Access and Performance Monitoring and Reporting	29/12/16
RRE	Budget Savings and Decision Making Framework	Substantial	-	1	4	Identification of Proposals, Decision Making Framework, and Monitoring and Reporting	27/04/17
RRE	Community Budget with Southwark and Lambeth	Substantial	-	3	3	Governance, Accountability	18/05/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	Auditable Area	Assurance Level Given	H	M	L	Risk Headings / Area Tested During the Review	Date of final Report
RRE	Financial Regulations within the Constitution	Substantial	-	-	3	Financial framework guidance, Amendment and approving, and Accessibility of guidance	14/10/16
CUS	ICT Disaster Recovery	Substantial	-	2	-	Data Recovery, Service Recovery	11/04/17
CUS	Campshill Road - Extra Care Scheme	Substantial	-	2	3	Procurement, Project Management, and Land Transfer	01/06/17
CUS	No Recourse to Public Funds	Substantial	-	3	2	Assessment and reviews, Application refusals, and Payments and Budgetary Controls	DRAFT
COM	Public Health Contracts	Substantial	-	1	1	Payments and Contract Monitoring and Management Reporting	DRAFT
RRE	Risk Maturity	Risk Managed	-	5	1	Risk strategy, Policy, Governance and people	28/07/16
RRE	Expenses Memo	Memo tying all the points together			Expenses by Payroll , prepaid		
CYP	Troubled Families Programme – Claim Submissions (Phase 2 claims for year) 2016/17	Certifying Claim - No Issues			DCLG require internal audit to sample check the grant claim		n/a

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

School Audits

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Turnham Primary	No Assurance	8	24	6	As above	At Draft
SCH	Lucas Vale Primary	Limited	3	19		As above	01/09/17
SCH	Clyde Nursery	Satisfactory	-	8	-	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	25/11/16
SCH	Dalmain School	Satisfactory	1	5	-	As above	20/01/17
SCH	Deptford Park Primary	Satisfactory	-	6	2	As above	06/12/16
SCH	Marvels Lane Primary	Satisfactory	-	11	4	As above	09/03/17
SCH	Rangefield Primary	Satisfactory	-	6	12	As above	06/02/17
SCH	Rushey Green Primary	Satisfactory	-	10	5	As above	22/07/16
SCH	St Joseph's Catholic Primary	Satisfactory	-	9	8	As above	10/02/17
SCH	St Stephen's CE Primary	Satisfactory	-	11	2	As above	15/12/16
SCH	Torridon Infant	Satisfactory	-	8	7	As above	13/01/16
SCH	Horniman Primary	Satisfactory	-	9	5	As above	01/06/17

Appendix 1 – Internal Audit opinions, category of recommendations, and areas reviewed for 2016/17

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	John Stainer Primary	Satisfactory	-	7	1	As above	03/02/17
SCH	Sandhurst Junior	Satisfactory	-	9	9	As above	15/03/17
SCH	Stillness Jnr	Satisfactory	-	11	2	As above	15/05/17
SCH	Torridon Junior	Satisfactory	-	15	9	As above	16/03/17
SCH	Brindishe Green Primary	Substantial	-	3	3	As above	20/10/16
SCH	Brindishe Manor	Substantial	-	3	-	As above	20/10/16
SCH	Holy Cross Catholic Primary	Substantial	-	3	2	As above	22/07/16
SCH	Good Shepherd Catholic School	Substantial	-	3	1	As above	11/11/16
SCH	Myatt Garden Primary	Substantial	-	4	3	As above	25/11/16
SCH	St Mary's CE Primary	Substantial	-	3	7	As above	23/12/16
SCH	Drumbeat School (Special)	Substantial	-	7	10	As above	28/03/17
SCH	Rathern Primary	Substantial	-	4	3	As above	20/01/17
SCH	Sandhurst Infant	Substantial	-	8	7	As above	28/02/17
SCH	St Augustine's Catholic Primary	Substantial	-	2	10	As above	15/03/17
SCH	Stillness Infant	Substantial	-	6	5	As above	16/03/17

Appendix 2 – Follow up Review Conducted in 2016/17

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
RRE	Non-Current Assets 15-16 (Core Financial Audit)	Satisfactory	18/05/16	24/05/17	1	1			2
RRE	Capital Expenditure 15-16 (Core Financial Audit)	Satisfactory	22/03/16	05/05/17	2			1	3
RRE	Commissioning and Procurement Board	Limited	04/05/16	07/03/17				7	7
RRE	Budget Monitoring 15-16 (Core Financial Audit)	Satisfactory	01/03/16	03/03/17	1	2			3
RRE	Main Accounting 15-16 (Core Financial Audit)	Satisfactory	16/02/16	29/12/16	1			1	2
RRE	Treasury Management 15-16 (Core Financial Audit)	Substantial	09/02/16	29/12/16	2				2
RRE	Payroll 15-16 (Core Financial Audit)	Substantial	11/04/16	22/11/16	1				1
RRE	Procurement	Satisfactory	24/07/15	18/07/16				3	3
RRE	Pensions for LGPS and TPS 15-16 (Core Financial Audit)	Satisfactory	01/04/16	08/05/17	1		1	2	4
CUS	Appointeeships, deputyships and safeguarding of clients assets (both physical and financial)	Satisfactory	07/06/16	02/06/17		3			3

Appendix 2 – Follow up Review Conducted in 2016/17

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
CUS	Client Contribution for Care Provision 15-16 (Core Financial Audit)	Limited	01/04/16	24/05/17	4	4			8
CUS	Accounts Receivable 15-16 (Core Financial Audit)	Limited	15/01/16	18/05/17		2		4	6
CUS	Banking 15-16 (Core Financial Audit)	Limited	07/03/16	18/05/17	1	3			4
CUS	Accounts Payable 15-16 (Core Financial Audit)	No Assurance	07/06/16	16/03/17	4	4		3	11
CUS	Council Tax 15-16 (Core Financial Audit)	Satisfactory	07/03/16	10/03/17	1				1
CUS	NNDR 15-16 (Core Financial Audit)	Satisfactory	07/03/16	10/03/17	1				1
CUS	Housing Benefit and CTRS 15-16 (Core Financial Audit)	Satisfactory	21/04/16	28/02/17	3	1			4
CUS	Housing Register and offers	Satisfactory	11/04/16	27/02/17	2	1			3
CUS	Adherence to the Local Government Transparency Code 2014	Limited	03/05/16	20/02/17				3	3
CUS	In-house bailiff service / Enforcement Agency	Substantial	01/03/16	20/02/17		1			1
CUS	One Oracle ERP System	Satisfactory	22/07/15	05/12/16		2			2
CUS	Contract Management - Recycling & Incineration Arrangements	Satisfactory	10/11/15	03/10/16	3	1			4

Appendix 2 – Follow up Review Conducted in 2016/17

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
CUS	Translation, Interpretation and Transcription Service - Contract Management	Satisfactory	14/07/15	08/09/16				2	2
CUS	SharePoint 2010	Satisfactory	13/10/15	18/08/16	1	5			6
CUS	Registrars	Satisfactory	16/10/15	18/07/16	1	1		1	3
CUS	Housing Grants / Council's Housing Assistance Policy	Satisfactory	20/07/15	16/06/16	2	2			4
CUS	No recourse to public funds (Pilot Scheme)	Substantial	13/07/15	09/06/16	1				1
COM	Direct Payments (was Personalisation) 15-16	Satisfactory	24/05/16	11/05/17	1	2	1		4
COM	Payments to Adult Care Providers 15-16 (Core Financial Audit)	Limited	27/05/16	05/05/17	3	2		4	9
COM	Better Care Fund Framework	Limited	25/05/16	21/03/17	8	2		1	11
COM	Domiliary Care Agencies - Contract Monitoring 15-16	Satisfactory	22/02/15	20/02/17	1	2	1	1	5
COM	Youth Offending	Satisfactory	02/07/15	17/06/16	2	1		1	4
COM	South London and Maudsley (SLAM)	Satisfactory	14/07/15	06/06/16		3			3
COM	Payments to Adult Care Providers 14-15 (Core Financial Audit)	Satisfactory	18/06/15	27/05/16		4		2	6

Appendix 2 – Follow up Review Conducted in 2016/17

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Superseded	Not Implemented	Total
CYP	Contract Management - CYP - Employer Agents: Pupils Places Programme	Satisfactory	20/05/16	05/06/17	2	3			5
CYP	Youth Service	Satisfactory	01/07/15	17/06/16	1	2			3
CYP	Payments to Care Provider and Foster Carers for Looked After Children 15-16 (Core Financial Audit)	Satisfactory	07/06/16	05/05/17	1	4			5
CYP	Contract Management - Children’s Centres	Limited	14/04/16	09/06/17	1	4	1		6
CUS	Housing - Bed and Breakfast, Hostels and Temp Accommodation	Limited	06/06/16	09/06/17	1	1	3		5
RRE	Risk Management	Satisfactory	21/12/15	09/06/17	2		1		3
CUS	Compliance with DPA	Satisfactory	04/05/16	08/05/17		4		2	6
RRE	PFI Contract Monitoring	Satisfactory	15/08/15	06/06/17		2			2
RRE	AFACT	Satisfactory	15/06/17	06/06/17	4		1		5

Appendix 2 – Follow up Review Conducted in 2016/17

Schools

Lead Dir.	Audit Followed –Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Imple-mented	In Progress	Supers-ed	Not Imple-mented	Total
SCH	Adamsrill Primary School 15/16	Limited	26/08/15	26/04/16	9	5	-	2	16
SCH	Watergate Primary School 15/16	Limited	11/08/15	09/05/16	11	1	1	-	13

Appendix 3 – Assurance Opinions Definitions

Assurance Opinion Definitions

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.

INTERNAL CONTROL BOARD		
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 2017

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. Executive Summary

- 2.1. There are no major changes to report. The detail is provided in the body of the report for which the highlights are:

- The work on both recovering housing tenancies and detecting fraud housing applications continues with improved results. This has been assisted with the implementation of powers under the Prevention of Social Housing Fraud Act which allows local authorities to require financial institutions and utility companies to provide information relating to those suspected of committing housing related fraud. This is reflected in the Transparency Code data in section 7.2 of this report.
- There continue to be team changes with agency staff being impacted by the IR35 tax changes. This has impacted on the team but all roles have now been filled.
- The Pre-employment check process is being reviewed with a focus on the declaration of business interests. This has been the main area flagged when undertaking checks this year.
- A-FACT plan to continue to highlight fraud risks and news items as part of a regular newsletter. This follows on from the Fraud Awareness week publicity last quarter.

3. Recommendations

- 3.1. It is recommended that the Audit Panel note this report for information.

4. Special Investigations

- 4.1. Details of work and comparative figures for the same period in the prior year are shown below, along with the previous two full year figures for reference.

Appendix 4 – A-FACT annual report to Audit Panel

Summary of Special Investigations work	2016/17	2015/16	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f	8	45	-37	-82%	30	41
New	130	102	28	27%	97	79
Closed	114	136	-22	-16%	-82	-91
c/f	24	11	13	118%	45	30
Of which						
E'ee cases	13	17	-4	-24%	19	27
- resulting in action	6	10	-4	-40%	10	16
Other cases	101	119	-18	-15%	63	64
- resulting in action	53	27	26	96%	31	22

Employee Related cases

- 4.2 Of the 114 cases closed this year 13 related to employees and 6 of those resulted in action. The level of staff fraud continues to remain low. These cases are included in the year to date figures shown below.

Analysis of employee fraud	2016/17	2015/16	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	0	1	-1	-100%	1	6
Other disciplinary (incl not employed)	1	2	-1	-50%	2	0
Monies repaid or liability amended	1	2	-1	-50%	2	2
Management action incl process review	2	2	0	0%	2	2
Identity or other issue cleared	1	1	0	0%	1	0
Rec. not adopted	1	0	1	100%	0	0
Total	6	10	-4	-40%	10	16

- 4.3 “Other Cases” include applications for support by those who have No Recourse to Public Funds, Blue Badge fraud, Council Tax fraud and reviews of operational processes to prevent or deter fraud. The actions taken are summarised in the table below.

Appendix 4 – A-FACT annual report to Audit Panel

Analysis of Non Employee Cases 2016/17	Total Cases	Fraud Proven	Evidence provided to assist assessment	Occ Check	Info verified	Action taken	NFA
No Recourse to Public funds	20	5	6	5	1	0	3
Blue Badge/ Freedom Pass	8	4	0			0	4
Identity or address verification	10	1	4		4	0	1
Ctax Fraud	9	4	0			0	5
Enquires internal and external	39		6			0	33
Applications for support	5		4				1
Fraud Alerts issued	2					2	
Direct Payments for Care	5	1	1		3		
Spec Invest Other cases	3	1	1				1
Total	101	16	22	5	8	2	48

4.4 A-FACT are undertaking more checks for other services across the council to confirm identity, address history and/or circumstances as part of an assessment of a claim for a service or support. As the assessment of these claims can be impacted by a number of factors we are now reporting on all cases where significant evidence is provided to assist with the application.

4.5 **Pre-employment Checks**

A-FACT support Human Resources by undertaking part of the Council's recruitment checks. Each potential employee of the Council is required to complete a pre-employment check focusing on any issues relating to Council tax, benefits, rent and personal business interests which may cast doubt on the individual's integrity or potential conflicts for their work going forward. This process also applies to agency staff.

Summary of pre-employment checks	2016/17	2015/16	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
Checks completed	268	317	-49	-15%	270	274
Action taken	30	35	-5	-14%	25	20

4.6 The majority of cases where action was required relate to business interests. Either the Council was not previously aware of the interest or checks had to be undertaken to ensure no conflict of interest. This accounts for 25 cases. One case did relate to an agency appointment being terminated.

Lewisham Homes

- 4.7 A-FACT continues to undertake investigation work on behalf of Lewisham Homes under a Service Level Agreement which has now been extended for 2017/18. 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.

5 Housing Application Investigations

- 5.1 Details of work and comparative figures for the same period in the prior year are shown below, along with the previous three full year figures for reference.

Summary of Housing App Investigations	2016/17	2015/16	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f (corrected 2016 b/fwd figure)	2	19	-17	-89%	38	76
New	125	28	97	346%	46	67
Closed	-105	-45	-60	-133%	-65	-107
c/f	22	2	20	1000%	19	36
Resulting in action	33	25	8	32%	42	50

- 5.2 The 33 successful cases resulted in 29 cancelled applications for housing. Based on current Cabinet Office figures each represents an indicative savings of £18k. In total a value of £522,000. The remaining cases related to proving that 4 decent applicants were not resident (saving approx. £24k) and an application for housing where the priority was significantly reduced.

- 5.3 A further 22 cases were removed from the register but not classed as fraudulent, these are included in the cases closed figure. This was as part of a data cleansing exercise which will continue.

- 5.4 One of the cases concluded recently involved a single parent who had been housed by Lewisham in temporary accommodation for the last 3 years was found to have adopted the identity of a British Citizen who had left the UK. A-FACT worked with the Home Office to secure a successful prosecution for their possession and use of the birth certificate, which they claimed to have purchased for £250 and for which they received a two year suspended sentence and eviction from the accommodation.

6 DCLG/ RSL Partnership Cases

- 6.1 Since January 2012 A-FACT have worked with local housing partners to tackle fraud related to social housing.

Appendix 4 – A-FACT annual report to Audit Panel

Summary of DCLG Housing Investigations Work	2016/17	2015/16	Change		2014/15	2013/14
	FY	FY	Number	%	FY	FY
b/f	5	176	-171	-97%	33	9
New	87	76	11	14%	269	111
Closed	-63	-247	184	74%	126	-83
c/f	29	5	24	480%	176	37
Resulting in action	19	16	3	19%	38	33

- 6.2 There were 19 tenancies successfully recovered including one case which resulted in a criminal prosecution. The Cabinet Office have stated that the notional value of a social tenancy is now £75k on that basis this equates to a total saving to the Council of £1.4 million. A further 7 cases are awaiting court action and have a strong likelihood of success.
- 6.3 In addition to this, occupancy checks were undertaken or identities verified in 28 cases. The details of these tenancies is always fed back to the relevant partner to provide assurance of the accuracy of their records.
- 6.4 One of the more interesting cases involved a property where the tenant had not been resident since at least 2007 as they were living and operating businesses abroad with no intention to return. Using the powers available A-FACT were able to prove that they had used hardly any electricity at the property in that period and that nearly all their financial transactions were outside of the UK. Enquiries uncovered that they owned 10 other flats in the UK with a partner. When the evidence was put to them the tenant agreed that they had not been resident and voluntarily returned the tenancy to avoid any court costs. They had also incorrectly claimed Single Person discount on their Council Tax of £3,800 which is now being repaid.

7 Local Government Transparency Code 2014

- 7.1 The Local Government Transparency Code requires all local authorities to publish data on their anti-fraud arrangements on at least an annual basis.
- 7.2 The data for 2016/17 is shown along with the two previous years for comparison.

Data required	2016/17	2015/16	2014/15
Number of occasions they use powers under the Prevention of Social Housing Fraud (Power to require information) (England) Regulations 2014 or similar powers.	68	1	Nil
Total number of employees undertaking investigations and prosecutions of fraud	7	7	10
Total number of professionally accredited counter fraud specialists	6	6	8

Appendix 4 – A-FACT annual report to Audit Panel

Data required	2016/17	2015/16	2014/15
Total amount spent by the authority on the investigation and prosecution of fraud	£355,734	£336,153	£492,506
Total number of cases investigated	282	428	637

7.3 The Metropolitan Police are reviewing the London wide arrangements as they relate to the Council's seconded Detective Constable. This access and support to the team would be a loss and likely change the nature of work undertaken in future years.

8 Legal Implications

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

9 Financial Implications

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

10 Equalities Implication

10.1 There are no specific equalities implications arising directly from this report.

11 Crime and Disorder Implications

11.1 There are no crime or disorder implications arising directly from this report

12 Environmental Implications

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

13 Background Papers

13.1 The Council's counter fraud policy and strategy are published on the website and intranet. There are no other background papers to this report.

If there are any queries on this report, please contact

David Austin at david.austin@lewisham.gov.uk or on 020 8314 9114, or

Carol Owen at carol.owen@lewisham.gov.uk or on 020 8314 7909

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: 20 June 2017

1. Purpose of the report

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

- Progress against the internal audit plan;
- Progress of implementation of internal audit recommendations;
- Audit Plan for 2017/18; and
- The internal audit charter for 2017/18.

2. Recommendations

2.1. It is recommended that the Audit Panel:

- Note this report,
- Note the appended Schools' Forum Report;
- Approve the internal audit plan for 2017/18; and
- Approve the internal audit charter for 2017/18.

3. Background

3.1. Internal Audit is a statutory service and its main priority is to provide management and members with objective assurance on the control environment within the Council.

3.2. The internal audit service consists of an in-house team that is supported by external service providers.

3.3. The in-house team consists of the Head of Corporate Resources (Head of Internal Audit), the Internal Audit Contract Manager, and three principal auditor, with support from internal audit contractors.

3.4. This details in this report for the 2017/18 work are as at the 31 May 2017. The Annual Assurance report for 2016/17, and the School Forum report for 16/17, both have details up to the 08 June 2017.

4. Executive Summary

4.1. Progress against the audit plan 16/17

Since the last meeting, 22 corporate reports were issued. Of the remaining corporate plan, four audits are yet to be finalised, and five are yet to be issued as a draft (as at 31/05/17).

There was one additional piece of work added to the plan, with two cancelled and seven deferred to the 2017/18 audit plan.

There were seven school reports finalised, leaving a further three to be finalised from draft, and one audit to be issued as draft (as at 31/05/17).

4.2. Progress against the audit plan 17/18

The corporate plan has nine audits underway. There was one cancelled audit, and seven added (from the 16/17 audit plan).

The schools audit plan has had no changes. As at 31/05/17, one audit had started.

4.3. Limited, No Assurance, and Consultancy reports.

There were seven corporate Limited reports issued, three of which were core financial reports. There were no consultancy or No Assurance reports issued since the last meeting.

There were no schools issued with a limited or no assurance report as at the 31/05/17.

4.4. High or Medium recommendations not agreed by management

Management agreed all high and medium recommendations

4.5. Follow up reviews

There were 15 corporate follow-up reviews conducted. Of these 73% of recommendations were either implemented or in progress. There were no superseded recommendations.

The schools plan did not have any follow-ups due.

4.6. Management progress against recommendations made

There were 146 corporate open recommendations as at 31/05/17. Of these, 22 were overdue (15% of the open recommendations). This is the lowest amount of overdue recommendations in the last rolling year.

There are 17 (12%) recommendations that are taking over 12 months to implemented (based on due date).

There were 141 school open recommendations as at 31/05/17. Of these 82 (58%) were overdue. This is an increase since the last meeting, and internal audit are presenting to the school managers conference, at the request of Schools Forum, to raise the profile and importance of schools keeping on top of their internal audit actions.

4.7. Types of controls for recommendations made

As no 17/18 reports were finalised, there is nothing to report at this meeting.

4.8. Internal Audit Plan 17-18

There were only minor changes to the draft audit report that was presented to Members at the last meeting. They were; one cancelled report due to the project no longer going ahead, and the addition of the audits to be completed from the 16/17 audit plan.

A list of all the audits for 17/18 can be found in Appendix 1.

4.9. Internal audit charter for 2017/18

The audit charter for 2017/18 can be found in Appendix 5. There are no significant changes from the 2016/17 Charter, with the service continuing to meet the Public Sector Internal Audit Standards (PSIAS).

4.10. Schools' Forum Report for 16/17

The annual Schools Forum report is attached for members' information, please see Appendix 6.

It summarises all the information already provided to members about school internal audits, into one report. The report is due to go to the Schools' forum meeting on the 22/06/17.

4.11. Any other business

The internal audit service is supporting the finance, payroll and HR enterprise resource planning programme to review and advise on the changes to the overall process and systems control framework.

5. **Progress against the plan for 2016/17**

Corporate audits

5.1. The table below provides a summary of the status of the corporate part of the internal plan as at 31/05/17. The plan is now completed with only three at draft and five at fieldwork complete stage. It is expected to have all audits to at least draft report stage by the Audit Panel meeting of the 20 June.

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Yet Started	ToR / Field work stage	Reports at Draft	Final Reports
68	7	(21)	54	-	5	4	45

5.2. The remaining audits yet to be finalised are (as at 31/05/17):

- No Recourse to Public Funds
- Extra Care Scheme - Campshill Road
- Mobile Devices
- IT and Digital Strategy
- Vehicle Fleet and Fuel Tank Maintenance

- Minor Works Programme Contract- Schools
- Reporting of Safe Guarding Section 42 Referrals
- BCP for Adult Social Care Providers
- Public Health Targets

5.3. Details of the 22 final reports issued since the last meeting and up to the 31 May are in the table below.

Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Non-Current Assets (core) 16/17	14/05/17	Satisfactory	-	3	1
Community Budget with Southwark and Lambeth	18/05/17	Substantial	-	3	3
Pensions for LGPS and TPS 16-17 (Core Financial Audit)	08/0/17	Satisfactory	-	9	1
Capital Expenditure 16-17 (Core Financial Audit)	05/05/17	Satisfactory	-	3	1
Budget Savings and Decision Making Framework	27/04/17	Substantial	-	1	4
Expenses Memo (amalgamation of findings for prepaid cards, reimbursements by payroll and procurement cards)	27/04/17	n/a	n/a	n/a	n/a
Prepaid Cards	17/03/17	Limited	-	9	-
Budget Monitoring 16-17 (Core Financial Audit)	03/03/17	Substantial	-	2	1
Client Contribution for Care Provision 16-17 (Core Financial Audit)	24/05/17	Satisfactory	1	5	2
Accounts Receivable 16-17 (Core Financial Audit)	18/05/17	Limited	1	9	4
Banking 16-17 (Core Financial Audit)	18/05/17	Limited	2	7	1
Vulnerable Clients Monies - New Monitoring Process	18/05/17	Satisfactory	-	2	4
PayPal Project Implementation	05/05/17	Satisfactory	1	5	-

Audit (Corporate)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
ICT Governance Arrangements with Brent	11/04/17	Limited	2	5	-
Accounts Payable 16-17 (Core Financial Audit)	16/03/17	Limited	1	13	-
Business Rates (NNDR) 16-17 (Core Financial Audit)	10/03/17	Substantial	-	1	-
Council Tax 16-17 (Core Financial Audit)	10/03/17	Satisfactory	-	2	4
Adult Learning Lewisham	24/05/17	Satisfactory	-	3	1
Direct Payments (Core Financial) 16-17 Adult Learning Lewisham	05/05/17	Satisfactory	-	5	-
Payments to Adult Care Providers 16-17 (Core Financial Audit)	05/05/17	Satisfactory	-	6	-
Payments to Care Provider and Foster Carers for Looked After Children 16-17 (Core Financial Audit)	05/05/17	Satisfactory	-	4	3
Schools' Catering Contract	05/05/17	Limited	-	10	-

5.4. Below is a list of changes to the corporate audit plan since the last meeting.

5.5. Additional

- Expenses Memo - memo to management setting out common areas identified across audits for improvement.

5.6. Deferred to 17/18

- Pre Contract and Tendering Arrangements
- Monitoring of Lewisham Homes
- Monitoring of Child Care Providers
- Graduate Management Scheme
- KPI indicators
- MASH Arrangements (CYP)
- Concessionary passes, blue badges and taxi cards.

5.7. Cancelled

- Supporting People - Cancelled due to resources
- House in Multiple Occupation

School Audits

- 5.8. The table below shows the summary of the schools' plan for 16/17, as at the 31/05/17. For a more up to date status, please see the schools' forum report at appendix 4

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Started	Field-Work stage	Draft Reports	Final Report
27	-	-	27	-	1	3	23

- 5.9. The list of school audits finalised since the last meeting are listed in the table below.

Audit (Schools)	Date of Final	Audit Opinion	Recs. Made		
			H	M	L
Drumbeat School (Special)	28/03/17	Substantial	-	7	10
Marvels Lane Primary	09/03/17	Satisfactory	-	11	4
Sandhurst Junior	15/03/17	Satisfactory	-	9	9
St Augustine's Catholic Primary	15/03/17	Substantial	-	2	10
Stillness Infant	16/03/17	Substantial	-	6	5
Stillness Jnr	15/05/17	Satisfactory	-	11	2
Torridon Junior	16/03/17	Satisfactory	-	15	9

6. Progress on the 2017/18 audit plan.

Corporate Audit Plan

- 6.1. The table below provides a summary of the status of the corporate part for 2017/18 audit plan as at 31/05/17.

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Yet Started	ToR / Field work stage	Reports at Draft	Final Reports
68	7	(1)	71	62	9	-	-

- 6.2. The additional audits are those that were deferred from the 16/17 audit plan (see point 5.6)
- 6.3. The cancelled audit was Deptford Reach Project. This was cancelled due the project no longer going ahead.

School Audit Plan

- 6.4. The table below shows the status of the schools plan as at 31/05/17. One audit has started. There were no changes to the schools plan.

Original Plan	Extra Audits	Dropped Audits	Current Plan	Not Yet Started	Field work stage	Reports at Draft	Final Reports
27	-	-	27	26	1	-	-

7. Limited, No Assurance, and Consultancy reports

Corporate Audits

- 7.1. There were six audits reports issued with a Limited assurance opinion. Please see the list below. The executive summaries for these reports can be found in appendix 2.
- Prepaid Cards
 - Schools' Catering Contract
 - Accounts Receivable
 - Accounts Payable
 - Banking, and
 - ICT Governance.
- 7.2. The impact of these opinions, in particular for the core finance audits, is considered in the separate Annual Assurance report.
- 7.3. There were no consultancy or 'No Assurance' reviews issued since the last meeting. Details of the main areas can be found in the accompanying Annual Assurance Report.

School Audits

- 7.4. As at the 31/05/17, there were no Limited or No Assurance Reports. However, members are also asked to refer to the Schools Forum report for a more up to date status of the schools' audit plan, which includes one No Assurance audit issued in the first week of June, at Appendix 6.

8. High or Medium recommendations not agreed by management

- 8.1. Management agreed all recommendations.

9. Follow-up reviews

- 9.1. Corporate audits with High or Medium recommendations are normally followed-up within nine months of the final report. The exception to this are the core financial audits which are followed-up at the next annual audit.
- 9.2. There were 15 corporate follow-up reviews completed since the last report. The table summarises the outcome of these reviews, showing that 73% of recommendations were implemented or are in progress. The list of follow up reviews can be found in Appendix 4.

Implemented	In Progress	Superseded	Not Implemented	Total Recs
31	27	-	21	79
39%	34%	0	27%	100%

School follow up reviews

- 9.3. School audits with a negative assurance opinion (i.e. 'Limited' or 'No assurance') also receive a follow-up review. There were no school follow-up reviews completed in this period.

10. Management progress against recommendations made

Corporate Recommendations

- 10.1. The table below shows the status of the High and Medium recommendations as at the 31/05/17 for corporate recommendations.
- 10.2. The percentage of overdue to open recommendations is 15%, which continues the trend for improvement over the last year.

Month of meeting	Current no. of open recs	No. of overdue recs	No. of open recs with 2+ changes	No. of recs that have been re-opened	No of re-occurring core financial rec	Percentage of overdue recs to open
May 17	146	22	16	2	28	15%
Mar 17	123	26	18	8	9	21%
Dec 16	107	26	18	10	13	24%
Sep 16	139	44	16	11	18	32%
Jun 16	118	37	16	10	11	31%

- 1.1. The re-occurring recommendations have increased. However, this was expected as the majority of core financial audits were completed in the final quarter of the year.
- 1.2. To accompany the table above, Appendix 4 lists the audits with recommendations that are either:
- Overdue (due date has passed)
 - Two or more changes have been made to the due date,
 - Re-occurring core financial recommendations, or
 - Recommendations were re-opened at the time of the follow-up
- 10.3. There was only one recommendation that was superseded by management since the last meeting.

Audit name	Recommendation	Reason for superseding
Council Tax 16/17	Management should ensure that in processing single person discount claims, tenancy agreements are provided to support the claims where no other evidence is available	It is not practicable to request copies of tenancy agreements prior to an award of a SPD, as this will delay income to the council as a result of customers refusing to pay until their account is correct, in addition, this suggested process would increase the volume of incoming correspondence to the council unnecessarily. Moreover, not all residents in receipt of a SDP are tenants. Instead, the council tax section awards a SPDs from a hard copy or electronic application where the customer is required to sign a declaration. Where a discount is awarded as a result of a phone call, the customer is sent a declaration form to complete. The entire SPD process is currently under review with the aim of introducing a rolling review process to replace the existing biennial review and internal checks against data already in the council's possession

Aged analysis report

- 1.3. ICB requested an aged analysis report on open recommendations. It is intended to provide management with an overview of how long recommendations are taking to implement from the date of the final report.
- 1.4. This age analysis is worked out by using the current due date for each recommendation from the date the final report was issued.

No. of recs under 3 mths	No of recs 3 to 6 mths	No of recs from 6+ to 9 mths	No. of rec 9+ to 12 mths	No of recs 12+ to 18 mths	No of recs over 18+ mths
62	26	30	11	7	10
42%	18%	21%	7%	5%	7%

- 10.4. The table above shows that 20% of open recommendations have been open for over one year and remain to be completed.
- 10.5. It should be noted that they may be some recommendations that are will legitimately due in over one year, such as signing a contract.
- 10.6. Those recommendations over 12 months or more are discussed at the monthly DMT meetings.

School Recommendations

- 10.7. The table below shows the status of open High and Medium school recommendations as at the 31/05/17. The percentage of overdue to open recommendations is 58%.
- 10.8. This increase was expected as the officer who deals with the school recommendations is currently out of the office for an extended period. The detail is reported in Appendix 4.

Month of meeting	Current no. of open recs	No. of overdue recs	Percentage of overdue recs to open
May 17	141	82	58%
Mar 17	107	41	38%
Dec 16	95	58	61%
Sept 16	154	67	43%
June 16	116	84	72%

11. Types of controls for recommendations made

- 11.1. As we are only starting to report on these from the 17/18 audit plan, there is nothing yet to report. The wider assurance conclusions from the 2016/17 internal audit work are set out in the separate Annual Assurance report to the Audit Panel.

12. Internal audit plan 2017/18

- 12.1. With the exceptions noted in 'Progress on the 2017/18 audit plan', there were no changes to the plan (scope or audits) from the draft version presented to the Audit Panel in March. The audits (including the additional ones) are listed in Appendix 1.

13. Internal Audit Charter

- 13.1. Members are asked to approve the Internal Audit Charter for 2017/18, which can be found in Appendix 4.

14. Any other business

14.1. The internal audit services is supporting the Council's Enterprise Resource Planning programme of work for the finance, payroll and human resources systems. Working alongside the implementation team internal audit will review and advise on the proposed new end-to-end business processes and controls.

15. Legal implications

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

16. Financial implications

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

17. Equalities implications

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

18. Crime and disorder implications

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

19. Environmental implications

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

20. Background papers.

20.1. There are no background papers.

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk

Appendix 1 - audit plan and progress for 2017/18

KEY - CF = Core Financial IT - Information Technology CT = Contract GEN = General Corporate Audits

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CF	Direct Payments (Core Financial Audit) 17-18										
CF	Payments to Adult Care Providers 17-18 (Core Financial Audit)										
CF	Accounts Payable 17-18 (Core Financial Audit)										
CF	Accounts Receivable 17-18 (Core Financial Audit)										
CF	Banking 17-18 (Core Financial Audit)										
CF	Client Contribution for Care Provision 17-18 (Core Financial Audit)										
CF	Council Tax 17-18 (Core Financial Audit)										
CF	Housing Benefit 17-18 (Core Financial Audit)										
CF	NNDR 17-18 (Core Financial Audit)										
CF	Payments to Care Provider and Foster Carers for Looked After Children 17-18 (Core Financial Audit)										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CF	Budget Monitoring 17-18 (Core Financial Audit)										
CF	Capital Expenditure 17-18 (Core Financial Audit)										
CF	Main Accounting 17-18 (Core Financial Audit)										
CF	Non-Current Assets 17-18 (Core Financial Audit)										
CF	Payroll 17-18 (Core Financial Audit)										
CF	Pensions for LGPS and TPS 17-18 (Core Financial Audit)										
CF	Treasury Management 17-18 (Core Financial Audit)										

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
IT	Controcc System										
IT	Ash (Debt recovery) Feeder System										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
IT	New CaseWork System										
IT	IT Helpdesk - Monitoring and escalation										
IT	Tribal System										
IT	Aims upgrade										
IT	New HR / Payroll IT systems										
IT	Oracle - Financial Replacement System										

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CT	Monitoring of Lewisham Homes Management Agreement										
CT	Parking Contract										
CT	Monitoring of Child Care Providers										
CT	Libraries										
CT	Pre contract and Tendering										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
CT	Homecare Service										
CT	Health Visitor Contract										
CT	Deptford Reach Project										
CT	Reed Agency										
CT	Catford Regeneration Partnership Ltd (CRPL)										
CT	Community Building Maintenance										
CT	Facilities Management (FM?) - Contract management										
CT	Procurement Arrangements										

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	Key Performance Indicators (KPIs) and Departmental Service Plans.										
GN	Apprenticeships, Graduates and other Professional Training Schemes										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	New MASH Arrangements (CYP)										
GN	Blue Badges, Freedom Passes, Discretionary Passes and Taxi cards										
GN	Adult Social Care Peer review action plan										
GN	Community Health Care Pathway										
GN	Hand over from Hospital Discharge Neighbourhood team.										
GN	MASH (Multi Agency Safeguarding Hub) (COM										
GN	Assessment and Care Management										
GN	Youth offending										
GN	Disability Facilities Grant										
GN	Homelessness										
GN	Complaints and FOI / DPA										
GN	Door2Door										
GN	Garden waste service										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	General Data Protection Regulation Preparation										
GN	Decant processes										
GN	Rogue Landlords										
GN	Governors Support										
GN	Adoption Process										
GN	Children Looked After and Achieving Permanence (Adoption and Care Leavers experiences)										
GN	Children who need help and protection										
GN	Early Years 30hrs +										
GN	Fostering Arrangements										
GN	SEN Process										
GN	Procurement Cards										
GN	Risk Framework										
GN	IR35 - off payroll engagements										

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	ToR	F/W Started	F/W Ended	Exit Meeting Held	Draft report	Final Report	Assurance Level	H	M	L
GN	VAT Audit										
GN	Grants (Large)										
GN	Grants (Small)										
GN	Advice and support of HR / Recruitment process										

Type	Name of Corporate Audit	F/W Started	F/W Ended	Draft report	Final Report	Assurance Level	H	M	L
SCH	Brent Knoll School								
SCH	Coopers Lane Primary								
SCH	Elfrida Primary								
SCH	Haseltine Primary								
SCH	Holy Trinity CE Primary								
SCH	John Ball Primary								
SCH	Childeric Primary								

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	F/W Started	F/W Ended	Draft report	Final Report	Assurance Level	H	M	L
SCH	Downderry Primary								
SCH	All Saints CE Primary								
SCH	Baring Primary								
SCH	Beecroft Garden Primary								
SCH	Brindishe Lee Primary								
SCH	Sir Francis Drake Primary								
SCH	St James' Hatcham CE Primary								
SCH	Greenvale Special								
SCH	Kelvin Grove Primary								
SCH	Perrymount Primary								
SCH	Eliot Bank Primary								
SCH	Gordonbrock Primary								
SCH	Grinling Gibbons Primary								
SCH	New Woodlands								
SCH	St Bartholomew's CE Primary								

Appendix 1 - audit plan and progress for 2017/18

Type	Name of Corporate Audit	F/W Started	F/W Ended	Draft report	Final Report	Assurance Level	H	M	L
SCH	St George's CE Primary								
SCH	St John Baptist CE Primary								
SCH	St Saviour's RC Primary								
SCH	St William of York Catholic Primary								
SCH	St Winifred's Primary Catholic Primary								

Appendix 2 - No Assurance, Limited and Consultancy Reviews

Executive Summary – Prepaid Cards 2016/17



Overall Internal Audit Assurance Opinion ▲ Limited

★ Substantial ● Satisfactory ▲ Limited ■ No Assurance.

(See glossary for definitions).

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 audit trail to confirm approval of card requests was not robust, as a drop down list was used to name the approver so open to abuse. It was also found that an older version of SharePoint was in use, version 2003.
- A sample review of 10 card requests identified that a business case had not been formally documented for any of them. Two instances of delays in the processing of card requests, between request and issue were also noted.
- A sample review of 10 top ups identified that authorisation had been given by the Accountant, rather than the Group Finance Manager.
- There is a limit of £1,000 for Instant Issue cards, however Payroll issue instant issue cards over this amount (up to £5,000) for season ticket loans.
- A sample review of 12 cardholders identified that eight had not accessed the member's area which is used by the cardholder to monitor transactions.
- Cardholders are informed they are not required to retain receipts; however there is a lack of an audit trail, particularly in respect of cash withdrawals.
- A lack of an independent review of purchases made using a small purchasing budget was identified.
- A case was identified of an oyster card that had been linked to the pre-paid card and was set to automatically top-up as required. Two cases for which a Corporate Procurement Card may be more appropriate were also identified including payment of client utility bills and court fees.
- Four cardholders could not be confirmed as current employees.

Risk Headings	H	M	L
● 1. Transfer of Funds	-	4	-
▲ 2. Monitoring and Reporting	-	5	-
Total	-	9	-

Areas that worked well

- Procedures are in place
- All request forms are saved on the SharePoint site

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 any High or Medium recommendations on the Recommendations SharePoint site.

Changes to the scope

This audit did not look at the process of named cards as this deals with clients monies, which is out of scope of the audit.



Internal Audit Assurance Opinion		Risk Headings	H	M	L
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance (See glossary for definitions).	▲ Limited	● 1. Contract and Contract Variation	-	2	-
		▲ 2. Receipts and Payments	-	5	-
		● 3. Contract Monitoring and Management Reporting	-	5	-
		Total	-	10	-

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 15. 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

- Primary schools are not debited for their contribution for the paid meals in a timely manner;
- There are outstanding monitoring visits and trackers are not kept up to date;
- The contract was signed after commencement;
- The Health and Safety Policy of the Contractor was not approved by the Council as required;
- Reconciliations of payments due and made are not performed in a timely manner. The Contractor does not submit its monthly Profit and Loss statement to the Council in a timely manner and the 2015/16 annual reconciliation has not been agreed/approved by the contractor;
- There are no up to date procedure notes to provide guidance for processing receipts and payments and contract monitoring relating to the schools meals service;
- Deductions for the annual maintenance charge and free school meals are not processed in a timely manner;
- Contractor invoices are not paid in a timely manner;
- There is no record maintained to track self-monitoring visits performed by the Contractor;
- There is no evidence that the Contractor tests its Business Continuity Plan on a regular basis;
- The team does not maintain a log to track resolution of complaints received directly, and
- Financial matters are not evidenced as discussed in the monthly contract review meetings.

Follow-up

The followup for this audit will take place within nine months from the date of 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 - No Assurance, Limited and Consultancy Reviews

Executive Summary for Accounts Payable 2016-17



Current Audit Opinion	▲ Limited	Direction of Travel	↶	Previous Year's Opinion	■ No Assurance	Risk Headings	H	M	L
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance - See glossary for definitions						▲	1	3	-
1. Set Up and Amendments of Suppliers Details						▲	-	6	-
2. Payments						●	-	2	-
3. Reconciliations and Management Reporting						▲	-	2	-
4. Performance Indicators						Total	1	13	-

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 22. 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

Re-occurring findings

- The new supplier amendment workflow remains in progress in the One Oracle Partnership and has yet to be implemented; There is no arrangement in place for data cleansing of standing data;
- Exception reporting of duplicate and high value invoices prior to payment is not being performed;
- Directorate approval forms for staff members for 10 of a sample of 20 invoices selected could not be located. The electronic system designed to hold directorate approval forms for staff that are authorised to raise and approve purchase orders is still in progress; and
- The Construction Industry Scheme section of the procedure notes for processing HM Revenue & Customs payments had not been updated.

New recommendations

- There is no evidence to confirm that requests for amendments to supplier bank account details are verified;
- Reconciliation statements for accounts payable liability and eProcurement accounts are not prepared and reviewed in a timely manner; there was an outstanding cumulative reconciling difference of £523,727.80 in the accounts payable liability reconciliation;
- Invoice payment performance reports highlighting invoices that have not been paid within 30 days are not being run; late interest payments are not allocated to a specific code within the General Ledger. Of a sample of 30 invoices, nine were not paid in a timely manner. Seven invoices did not indicate the dates these were received by the Council;

- One invoice was not authorised in line with the Council's Authorised Signatory list;
- Of a sample of 10 new supplier set ups, there was no supporting documentation for one supplier set up on 30 June 2016; and
- The Corporate Comments, Complaints and Compliments Policy for the Council has not been reviewed since October 2014.

Follow up status of previous H & M recommendations			
Implemented	In Progress	Superseded	Not Implemented
1	3	0	3

Follow-up

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 - No Assurance, Limited and Consultancy Reviews

Executive Summary for Accounts Receivable 2016 - 17



Current Audit Opinion	▲ Limited	Direction of Travel	↔	Previous Year's Opinion	▲ Limited	Risk Headings	H	M	L
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (Definitions in glossary).						▲ 1. Invoices	1	2	1
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 19. 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.						★ 2. Income/ Write Off/Statute of limitations	-	-	-
Key findings that need attention Re-occurring recommendations:						● 3. Debt Recovery	-	5	1
<ul style="list-style-type: none"> Individual members of the Financial Transaction Team are able to raise and cancel invoices; Reminder letters taken out of the 'dunning' process are not monitored and reinstated as applicable; The functionality to automatically notify staff when instalment payments are not received is not yet implemented; The current Oracle AR functionality does not allow for the generation of reference numbers that could be validated by AIMS; At the time of the audit, the balance of £94,539.92 unapplied receipts (which has significantly improved since the previous audit) included amounts transferred from the old to the new Oracle system implemented in July 2014; and Debtors Collection Team Stats reports cannot be generated on the new Oracle 12 system. 						● 4. Reconciliations and Management Reporting	-	2	1
						Total	1	9	3

Follow up status of previous recommendations			
Implemented	In Progress	Superseded	Not Implemented
-	2	-	4

The followup 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.

New recommendations:

- Invoices are not always raised in a timely manner;
- Pitch allocation forms were not signed by debtors prior to being added to Oracle;
- Evidence of actions taken to resolve disputes were not retained and irrecoverable amounts were not charged back to the relevant department budget;
- The reconciliation of debtors control accounts was not performed and reviewed in a timely manner; and
- System access rights for one of a sample of 10 instances was approved by a non-manager.

Appendix 2 - No Assurance, Limited and Consultancy Reviews

Executive Summary for Banking Audit – 2016/17



Current Audit Opinion	Direction of Travel	Previous Year's Opinion	Risk Headings	H	M	L								
▲ Limited	↔	▲ Limited												
★ Substantial ● Satisfactory ▲ Limited ■ No Assurance. (Definitions in glossary).														
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 15. 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 Re-occurring recommendations														
<ul style="list-style-type: none"> There was a cumulative balance of £2.1m on the general ledger 'unidentified income' account; Un-cleared items in the exception report are not being transferred to the general ledger 'unidentified income' account in a timely manner; and Procedure notes are not evidenced as up to date. 			● 1. Payments 1 2 - ★ 2. Access to receipting/recording feeder system - 1 1 ★ 3. Cheque Printing and Security - 2 - ▲ 4. Reconciliation 1 2 - Total 2 7 1											
New recommendations			Follow up status of previous H & M recommendations											
<ul style="list-style-type: none"> Reconciliation of income is not evidenced as performed and reviewed in a timely manner. Reasons for identified variances were not stated in some instances; The monthly payment reconciliation between the general ledger and the bank statements is not evidenced as performed and reviewed in a timely manner. The prepaid card payments transactions posted to the general ledger are not obtained from an independent source; The arrangement in place for disabling leavers from the payment systems is not being adhered to. System administrators are not notified of leavers as required; The payment systems do not have the functionality to generate user lists; as such, Internal Audit could not verify that System Administrators are able to periodically review user access rights; The contract agreement with FDM that relates to cheque printing and storage was not available at the time of audit; and The reconciliation between AMS and the general ledger was not always performed daily as required. 			<table border="1"> <thead> <tr> <th>Implemented</th> <th>In Progress</th> <th>Superseded</th> <th>Not Implemented</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>3</td> <td>-</td> <td>-</td> </tr> </tbody> </table>	Implemented	In Progress	Superseded	Not Implemented	1	3	-	-			
Implemented	In Progress	Superseded	Not Implemented											
1	3	-	-											
The followup 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 Discussion with the Head of Cashiering Services established that the project to introduce recurring card payment methods last year was abandoned, as the use of recurring card payments could deter customers from setting up direct debits. Thus, this audit did not cover recurring card payments.											

Appendix 2 - No Assurance, Limited and Consultancy Reviews

Executive Summary for ICT Governance Arrangements –2016/17



Overall Internal Audit Assurance Opinion	Risk Headings			H	M	L
▲ Limited	▲	1. Responsibilities.		1	4	
	●	2. Governance.		1	1	
	★	3. Problem Resolution				
	Total			2	5	

★ Substantial ● Satisfactory ▲ Limited ■ No Assurance.

(See glossary for definitions).

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 12.

The internal audit opinion was based on a review of the Draft Shared ICT Collaboration Agreement revised December 2016 (Shared Services Agreement) and the various agendas, minutes and performance reporting provided for the Joint Committee of both Councils and the Shared Management Board.

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 Shared ICT Collaboration Agreement had not been finalised.
- The lack of a Schedule 2 "Agreed Service" and the separate Performance Management Framework risks misunderstanding with respect to the nature and level of service which can be expected.
- It was not clear the extent to which the collaboration extended to the agreed joint selection and maintenance of application software.
- Parties were not tied to a documented and agreed change management process.
- The channel by which the LBL Heads of Service are able to influence the direction of the Shared Service was not clear.

Areas that worked well

Management of LBL and LBB have recognised the potential benefits from a shared partnership in the provision of IT Infrastructure to be derived by securing economies of scale.

By working together, each authority should be better represented and be more able to share in the service and financial benefits than had they simply outsourced to a commercial third party.

Follow-up

The followup for this audit will take place within nine months from the date of 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 3 - Status of recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Accounts Payable 2015-16	No Assurance	07/06/16		1			Changed 5 x
Accounts Payable 2016-17	Limited	16/03/17	4			2	
Accounts Receivable 16-17	Limited	18/05/17				3	
BACS 2016-17	Satisfactory	01/11/16		3			Changed 3 x
Banking 16-17	Limited	18/05/17				3	
Budget Monitoring and Setting 2016-17	Substantial	03/03/17				1	
Client Contributions to Care Provision 16-17	Satisfactory	24/05/17				4	
Commissioning and Procurement Board 2015-16	Limited	04/05/16		1			Changed 2 x
Direct Payments 16-17	Satisfactory	05/05/17				3	
Disaster Recovery / Business Continuity Planning 2015/16	Satisfactory	06/06/17		3			Changed 2 x
Food Safety, Hygiene and Standards	Satisfactory	27/05/16	2	2			Changed 2 x
Leaving Care 18+ 2015-16	Satisfactory	07/06/16	4				

Appendix 3 - Status of recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Lewisham Website and Intranet Content Usability	Satisfactory	22/12/16		1			Changed 2 x
Main Accounting 2016-17	Satisfactory	29/12/16				1	
Payments to Adult Care Providers 2015-16	Limited	27/05/16	1			1	
Payments to Adult Care Providers 2016-17	Satisfactory	05/05/17				6	
Payments to Care Providers and Foster Carers 2015-16	Satisfactory	06/06/16				1	
Payments to Care Providers and Foster Carers 2016-17	Satisfactory	05/05/17				1	
Pensions 16-17	Satisfactory	08/05/17				2	
PFI Monitoring - School 15-16	Satisfactory	11/08/16	1				
Processes for Payments to Main Providers (Child)	Consultancy	14/06/16	6				
Project Management Review Framework 16-17	Limited	26/01/17	1				

Appendix 3 - Status of recommendations.

Name of Audit (Corporate)	Opinion	Final Report Date	Recs Overdue	2+ chgs	Re-opened at F/up	Re-occurring (core only)	Comment
Public Access to Information 2015-16	Satisfactory	04/05/16		1			Changed 3 x
Registrars - 15-16	Satisfactory	16/10/15		2			Change 6 & 3 x
Risk Maturity Review 2016-17	N/A	28/07/16		1			Changed 2 x
Schools' Catering Contract 16-17	Limited	03/03/17	3				
SharePoint 14-15	Satisfactory	13/10/15			2		
South London and Maudsley NHS (SLaM)	Satisfactory	14/07/15		1			Changed 2 x
		Total	22	16	2	28	

Appendix 3 - Status of recommendations.

Name of Audit (Schools)	Opinion	Final Report Date	Recs Overdue	2+chgs	Comment
Deptford Park School 16-17	Substantial	21/12/16	3		
Drumbeat Special School 16/17	Substantial	28/03/17	6		
Forest Hill School 2015-16	Satisfactory	26/02/16	11		
John Stainer School 2016-17	Satisfactory	03/02/17	6		
Marvels Lane 16-17	Satisfactory	17/03/17	11		
Our Lady and St Philip Neri RC School 2015-16	Satisfactory	04/02/16	1		
Prendergast - Hilly Fields 2015-16	Satisfactory	29/07/16	3		
Rushey Green School 2016-17	Satisfactory	22/07/16	1		
Sandhurst Infants School 16-17	Substantial	28/02/17	3		
Sandhurst Junior School 16-17	Satisfactory	15/03/17	7		
St James Hatcham Primary 14-15	Satisfactory	26/02/15		1	Changed 2 x
St Stephens CE Primary School 2016-17	Satisfactory	15/12/16	10		
St Winifreds Infant School 14-15	Satisfactory	24/02/15		1	Changed 2 x

Appendix 3 - Status of recommendations.

Name of Audit (School)	Opinion	Final Report Date	Recs Overdue	2+chgs	Comment
St. Joseph's School 2016/17	Satisfactory	10/02/17	6		
Stillness Infants School 16-17	Substantial	14/03/17	6		
Torridon Infant and Nursery School 16-17	Satisfactory	13/01/17	1		
Torridon Junior School 16-17	Satisfactory	16/03/17	5		
Torridon Junior School 16-18	Satisfactory	16/03/17	1		
Trinity All Through School 2015-16	Satisfactory	13/11/15	1		
		TOTAL	82	2	

Appendix 4 - Follow up Reviews

Audit Name	Opinion	Final report issued	F-up report issued	Implemented recs	In Progress recs	Superseded recs	Not implemented
Direct Payments (was Personalisation) 15-16	Satisfactory	24/05/16	11/05/17	2	2		
Payments to Adult Care Providers 15-16 (Core Financial Audit)	Limited	27/05/16	05/05/17	3	2		4
Better Care Fund Framework	Limited	25/05/16	21/03/17	8	2		1
Client Contribution for Care Provision 15-16 (Core Financial Audit)	Limited	01/04/16	24/05/17	4	4		
Accounts Receivable 15-16 (Core Financial Audit)	Limited	15/01/16	18/05/17		2		4
Banking 15-16 (Core Financial Audit)	Limited	07/03/16	18/05/17	1	3		
Accounts Payable 15-16 (Core Financial Audit)	No Assurance	07/06/16	16/03/17	4	4		3
Council Tax 15-16 (Core Financial Audit)	Satisfactory	07/03/16	10/03/17	1			
RANDR 15-16 (Core Financial Audit)	Satisfactory	07/03/16	10/03/17	1			
Housing Benefit and CTRS 15-16 (Core Financial Audit)	Satisfactory	21/04/16	28/02/17	3	1		
Payments to Care Provider and Foster Carers for Looked After Children 15-16 (Core Financial Audit)	Satisfactory	07/06/16	05/05/17	1	4		1
Non-Current Assets 15-16 (Core Financial Audit)	Satisfactory	18/05/16	24/05/17	1	1		
Capital Expenditure 15-16 (Core Financial Audit)	Satisfactory	22/03/16	05/05/17	2			1
Commissioning and Procurement Board	Limited	04/05/16	07/03/17				7
Budget Monitoring 15-16 (Core Financial Audit)	Satisfactory	01/03/16	03/03/17	1	2		
Total				31	27	-	21



Internal Audit Charter

2017-18

Last Reviewed: Mar 2017
Next Review : Mar 2018

Introduction

The main purpose of this charter is to provide the members and management on how the internal audit service will function in the coming year. It includes the roles and responsibilities of internal audit, including members and management responsibilities in relation to the council's control environment. It is split into sections six sections.

1. Public Sector Internal Audit Standards (PSIAS)

This section explains how the PSIAS which came in to force in April 2014, revised April 2016, evolved and what its objectives are. All public bodies' internal audit services have to adhere to these statutory set of standards. A definition of internal audit, mission, core principles and the reason for the charter are also included.

2. Statutory Framework

Internal audit is a statutory function that all public bodies are required to have. It is supported by various legislation, which this section details.

3. Internal Audit Structure

For 2017/18, the internal audit structure will consist of an in-house team supported by the Head of Audit and an Internal Audit Manager. External resources will support the team. The Head of Audit (HIA) is the Head of Corporate Resources and forms of the Senior Management team.

4. Accountability

Internal audit are required to report their findings to individual managers, Internal Control Board (ICB) and the Audit Panel. The Audit Panel reports to the Public Select Accounts Committee, who in turn report to the Mayor and Cabinet and Full Council. This section also covers the current relationship between Internal Audit and External Audit.

5. Internal Audit Framework

Independence and Objectivity - Internal auditors are required to be independent and objective. The Internal Audit Manager monitors and controls the conflicts of interests of the team (including contractors) and those of the Head of Internal Audit who has other operational responsibilities.

Resourcing Internal Audit – this will be the first year where an in-house team will formally be resourced and form a significant part of the internal audit service. External resources, from both public and private internal audit sectors, will support them in the delivery of the internal audit plan.

Types of Audit Reports – in addition to the individual audit reports, internal audit reports quarterly to the (ICB) and Audit Panel. The Schools Forum receives an annual report on the schools audited during the year. The HIA produces an annual assurance report that is presented to ICB and the Audit panel, which provides an opinion on the overall control environment.

Types of Work Conducted – Assurance work, which provides an opinion on 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 principals 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 International Professional Practices Framework (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 2017/18, the internal audit service will fill the vacancy of one Principal Auditor, and plan to recruit two trainee auditors or apprentices. The finalisation of the Internal Audit Manager's role will also be formalised.



Senior Management Structure

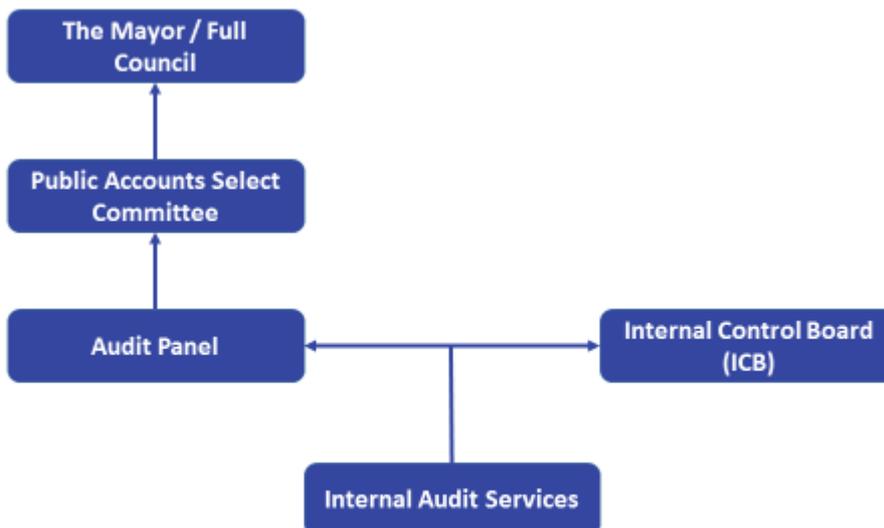
3.3. The top tier management for Resources and Regeneration chart shows where the HIA (Head of Corporate Resources) sits within the senior management structure of the Council. The Council’s senior management structure charts can be accessed via the link below. <http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/how-council-is-run/council-structure/Pages/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; and
 - 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 whom 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/Pages/constitution.aspx>

External Audit

- 4.9. External audit are independent of internal audit and the council. Their main role is to certify the Council's financial statements. Although they review the controls in relation to financial statements, they do not provide an opinion on the effectiveness of them.
- 4.10. Internal audit issue all final reports to external audit and are available to them to view if required.

Schools' Forum

- 4.11. In addition to the above, internal audit report to the Schools' Forum annually. This is forum is made up of staff from schools, such as Head Teachers and School Governors. Officers from the Council also attend. This forum is schools, not members, lead.

5. Internal Audit Framework

Independence and Objectivity

- 5.1. A definition of independence (in relation to Auditors') is, "The freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner".
- 5.2. PSIAS definition of objectivity: "An unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors to not subordinate their judgment on audit matters to others".
- 5.3. Internal auditors are mandated by the PSIAS to be independent and objective concerning the business activities they audit. The HIA and Internal Auditors, who may have conflicts of interests either real or perceived, must declare them to the Internal Audit Manager. This is in addition to any declarations that the 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 responsibilities, not relating to internal audit, the HIA has delegated the responsibility for agreeing the scope of those audits 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) will conduct some of the IT audits..

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 2017/18 consists of 973 productive days and 99 full audit reviews. It is broken down as follows
- Core Financial Audits (includes follow ups)– 245 days / 17 audits
 - IT Audits – 67 days / 8 audits
 - Contract Type audits – 162 days / 13 audits
 - Grant certification – 6 days / 1 report
 - General (corporate) Audits 370 days / 33 audits, and
 - School audits – 138 days / 27 audits.
- 5.11. There are days set aside for follow up reviews, and for providing advice to management. In addition, there is a contingency of approximately 50 days 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

Website detailing the types of fraud the A-FACT can investigate:

<http://www.lewisham.gov.uk/mayorandcouncil/aboutthecouncil/Pages/Report-fraud.aspx>

7. Approval and Contacts

- 7.1. Main Contacts for Internal Audit and A-FACT
- Head of Internal Audit (Head of Corporate Resources) – david.austin@lewisham.gov.uk
 - Internal Contract Audit Manager – julie.hetherington@lewisham.gov.uk
 - A-FACT Manager – carol.owen@lewisham.gov.uk
- 7.2. Charter Approved by Audit Panel on: June 17 (TBC)
- 7.3. Next Review : March 2018

Corporate Internal Control Board

Membership

- Independent non-executive Chair
- Chief Executive
- Executive Director for Resources & Regeneration
- Executive Director for Children & Young Persons
- Executive Director for Community Services
- Executive Director to Customer Services
- Head of Law
- Group Manager Insurance & Risk
- Head of Corporate Resources (for monitoring and control)

Terms of Reference

1. To identify and manage key strategic risks that could prevent the Council from meeting its objectives
2. To link risks to the corporate priorities and assess the likely impact and consequences of those risks
3. To allocate responsibilities for controlling identified risks
4. To complete the Corporate Risk Register, reviewing and monitoring this on a quarterly basis
5. To receive and review quarterly reports from the Risk Management Working Party (RMWP)
6. To receive regular reports on Internal Control within the Authority
7. To ensure a corporate approach to the management of risk, health and safety and emergency planning
8. To approve the Risk Management Policy and Risk Management Strategy
9. To support the risk management reporting and review framework, detailed in the Risk Management Strategy
10. To oversee the annual review of the System of Internal Control and Annual Governance Statement

AUDIT PANEL		
Report Title	Internal audit report for the School Forum for 2016-17	
Key Decision	No	Item No. 6
Ward	All	
Contributors	Head of Corporate Resources	
Class	Part 1	Date: 22 June 2017

1. Purpose of this report

- 1.1. This report presents members of the Schools' Forum with a summary of the 2016-17 (fiscal year) internal audit work in schools.

2. Recommendations

- 2.1. That the Schools' Forum note the report.

3. Background

- 3.1. All schools under the responsibility of the Council currently have an internal audit every three years. Members' agree the schools' audit plan around February / March for the following fiscal year (April to March). The Royal Borough of Greenwich, along with the new in-house team conducted the audits during 2016-17.
- 3.2. Internal audit use the same scope for testing at each school. The scope covers nine high-risk (non-teaching) areas which include; Procurement (purchasing), Governance, Asset Management, Banking, Budget Monitoring, Income, Recruitment, Payroll, and Data Security (DPA).
- 3.3. Internal audit assesses the controls in these risk areas and provides an opinion on the effectiveness of them to Governors, School Senior Management, and Senior Management at Lewisham Council. The overall assurance opinion categories are Substantial, Satisfactory, Limited and No Assurance.
- 3.4. Where appropriate, internal audit will make recommendations to help management improve these controls to minimise the risks. Recommendations are ranked using three levels, High, Medium and Low.
- 3.5. At the time of writing this report, three school reports were still at draft. However, they are included in the report as if they are finalised as the content and assurance opinion is not to expected to significantly change, if at all.

4. Audit assurance opinion

- 4.1. In 2016-17, 27 schools had an internal audit review. The number of schools with a Limited or No assurance opinion remains low.
- No Assurance - one school (still at draft)

- Limited - one school
- Satisfactory - 14
- Substantial - 11

The definitions of the assurance opinions and the categories of the recommendation are in Appendix 2.

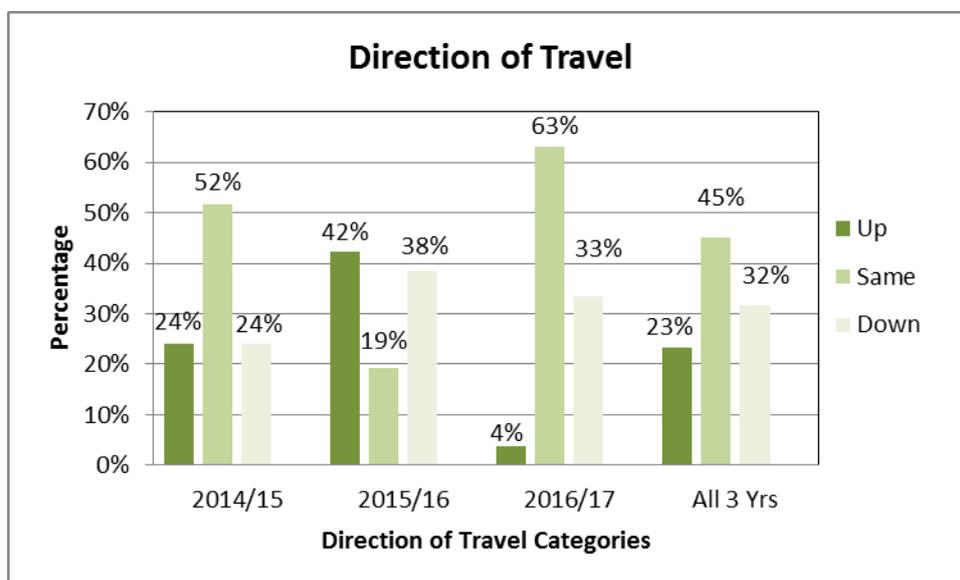
4.2. The overall assurance opinion for the year for all the schools' is Satisfactory. This is consistent with previous years. Councillors are informed of this opinion in the annual assurance report to be presented to them at the June 2017 Audit Panel meeting. The annual assurance report feeds into the Annual Governance Statement (AGS), which forms part of the Council's financial accounts.

4.3. A list of the schools that had an audit can be found in Appendix 1. It details the audit opinion, number of recommendations made, and the date of the final report (where applicable).

5. Direction of travel

5.1. In addition to providing an assurance opinion, internal audit also notes the direction of travel for each school. It compares the audit assurance opinion from the last audit (normally three years earlier) to the current assurance opinion.

5.2. The graph below (graph 1) show the direction of travel for schools for the last three years and the cumulative direction of travel.



Graph 1

5.3. It shows that for 2016/17:

- 33% of audits have a lower audit opinion than last audit. This is in line with the cumulative total of 32%,
- 63% of audits have the same audit opinion. This is higher than the cumulative total of 45%, and
- 4% of audits had an improved audit opinion. This is lower than cumulative of 24%.

- 5.4. It should be noted however, that having a lower opinion, does not necessarily mean they have a negative opinion. They could have moved from Substantial to Satisfactory, which are both positive opinions.
- 5.5. Equally, those schools' whose opinion remained the same, could mean the school continues to have a negative opinion.

6. Follow-up reviews

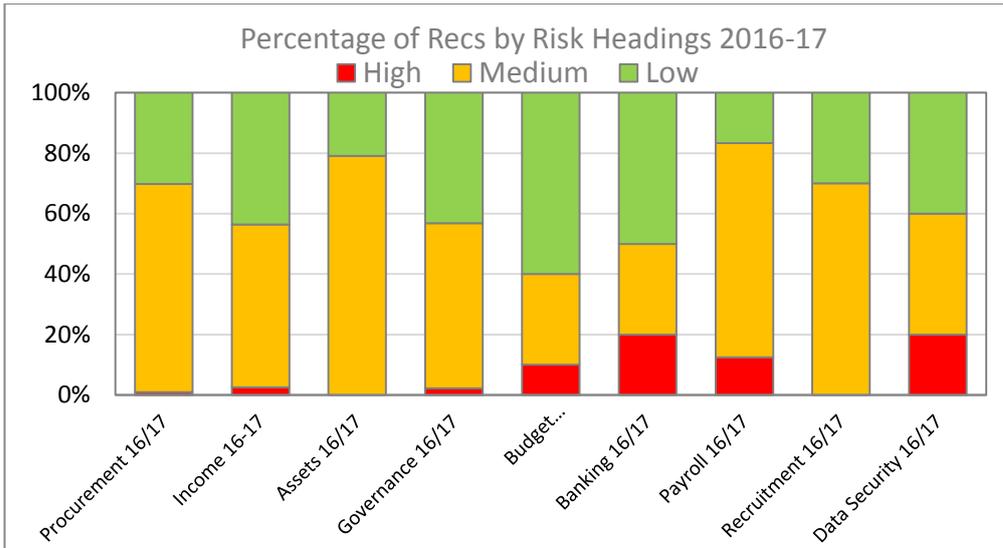
- 6.1. Where a school has had a negative assurance opinion, (Limited or No Assurance), internal audit will conduct a formal follow-up review, normally nine months after the final report. This allows time for the agreed actions to be implemented and assessed.
- 6.2. The auditor will review the status of all the agreed High and Medium recommendations made. A brief report is provided to Senior Management at the school, Chair of Governors, and relevant Senior Management at the Council. These follow-up reviews are in addition to any updates provided by the school to the CYP Directorate.
- 6.3. For 2016-17, the two schools that had negative opinions in 2015/16 had their follow up reviews done in April and May 2016. The status of the recommendations at the time of the follow-up are set out in the table below.

Audit Followed – Up	Original Opinion	Original Final Rpt Date	Follow-up Rpt Date	Implemented	In Progress	Not Implemented	Total
Adamsrill Primary	Limited	26/08/15	26/04/16	9	5	2	16
Watergate Special	Limited	11/08/15	09/05/16	11	1	1	13

7. Recommendations and Audit Opinions by Risk Headings.

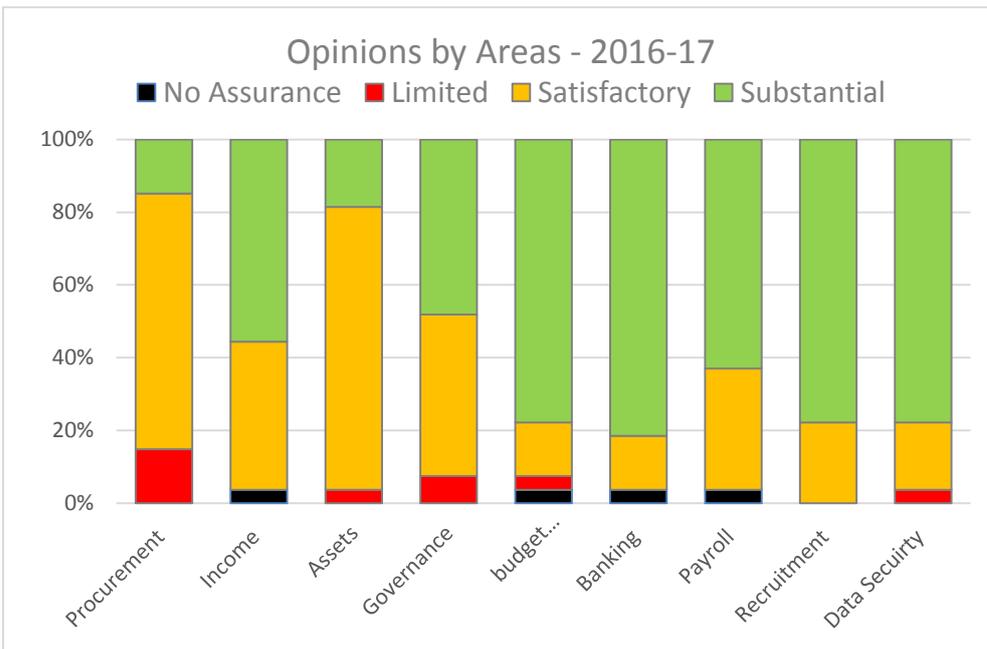
- 7.1. The auditor will make recommendations where improvements to controls are required. These are categorised as High, Medium and Low.
- 7.2. The graph below (graph 2), shows the percentage of recommendations made during 16/17, by risk heading and category of recommendation. A definition of the categories can be found at appendix 2.
- 7.3. The graph shows the highest percentage of High recommendations made were in Banking, Payroll and Data Security.
- 7.4. The highest percentages of Medium recommendations were made in Procurement, Assets, Payroll and Recruitment

Appendix 6 - School Forum Report for 16/17



Graph 2

7.5. In addition to the overall assurance opinion, an assurance opinion on the individual risk areas are also provided. This gives the stakeholders a more detailed look at what areas they need to concentrate their resources to improve controls. The graph below, (graph 3)



Graph 3

7.6. Here you can see that the risk areas where the negative opinions were given are mainly in Procurement, Governance and Budget Monitoring.

7.7. The main areas where the majority of recommendation are made are Procurement, Governance, and Assets.

7.8. The main findings in Procurement are:

- Non-compliance with the procurement levels set by the Council, EU regulations and the school's own procurement levels.

- Purchase Orders (PO) not being raised (and therefore commitment to spend not approved).
- POs not completed prior to purchasing the goods or receiving the invoice.
- Lack of separation of duties in the procurement process.
- Not obtaining authorisation from the Council's payroll department to pay individuals from the schools bank account (rather than through payroll).
- Purchasing alcohol, gift vouchers, payment to staff social events and leaving / birthday presents out of schools main bank account.

7.9. The main findings in Governance:

- Lack of approval from Governing body for finance policy and / or local scheme of delegation.
- Finance policy not being updated with key changes.
- Register of interest forms not completed by governors or staff with financial responsibility (or staff that can influence spend).
- Voluntary Fund / School Fund not audited and/or presented to governors for approval.

7.10. The main findings for Assets Management:

- Lack of segregation of duties - the officer who maintains the asset register also completes the stock take.
- Asset register not in place or not containing all the appropriate assets.
- Annual stock take not done.
- Write off policy not in place.
- Write off of assets not documented or authorised.
- Assets not appropriately security marked.

7.11. Internal audit had previously stated that they would revise their assurance reporting. It was proposed that from 2017/16 to include specific assurances on these three areas on the front of the report.

7.12. However, on reviewing the audits in 16/17, Internal Audit felt that focussing on these three areas only, may divert the school's resources from where they most need to improve controls.

7.13. It was therefore agreed to include an assurance of the school's weakest areas of controls on the front page, rather than just Procurement, Assets, or Governance. It is envisaged however, that the majority of reports will include these on the front page.

8. Conclusion

8.1. Overall, although the assurance opinions remain positive for the majority of schools the same types of recommendations continue to be made in a significant proportion of schools in the same areas - governance, assets and procurement.

8.2. For the next round of audit reviews an assurance opinion on the main risks areas where controls need to be improved at the individual school, will be provided. This is in addition to the overall opinion for the whole audit.

- 8.3. To improve controls in schools and avoid the financial and reputational risks associated with any failure for these reasons, internal audit recommends that the Governors consider including a review of recommendations from internal audit and/or other reports as a regular agenda item. This will enable them to monitor the progress of actions to address recommendations and respond to any issues that may arise.

9. Financial implications

There are no financial implications arising directly from this report.

10. Legal implications

There are no legal implications arising directly from this report.

11. Crime and disorder implications

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

12. Equalities implications

There are no equalities implications arising directly from this report.

13. Environmental implications

There are no environmental implications arising directly from this report.

14. Background Papers

If there are any queries on this report, please contact David Austin, Head of Corporate Resources, on 020 8314 9114, or email him at: david.austin@lewisham.gov.uk .

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Turnham Primary	No Assurance	8	24	6	Procurement, Banking, Budget Monitoring, Governance, Recruitment, Payroll, DPA, Income and Asset Management	At Draft
SCH	Lucas Vale Primary	Limited	3	19		As above	01/09/17
SCH	Clyde Nursery	Satisfactory	-	8	-	As above	25/11/16
SCH	Dalmain School	Satisfactory	1	5	-	As above	20/01/17
SCH	Deptford Park Primary	Satisfactory	-	6	2	As above	06/12/16
SCH	Marvels Lane Primary	Satisfactory	-	11	4	As above	09/03/17
SCH	Rangefield Primary	Satisfactory	-	6	12	As above	06/02/17
SCH	Rushey Green Primary	Satisfactory	-	10	5	As above	22/07/16
SCH	St Joseph's Catholic Primary	Satisfactory	-	9	8	As above	10/02/17
SCH	St Stephen's CE Primary	Satisfactory	-	11	2	As above	15/12/16
SCH	Torridon Infant	Satisfactory	-	8	7	As above	13/01/16
SCH	Horniman Primary	Satisfactory	-	9	5	As above	01/06/17
SCH	John Stainer Primary	Satisfactory	-	7	1	As above	03/02/17
SCH	Sandhurst Junior	Satisfactory	-	9	9	As above	15/03/17

Appendix 1 - Schools' audited in 2015/16

Lead Dir.	School	Assurance level given	H	M	L	Areas / Risks tested during the review	Date of final report
SCH	Stillness Jnr	Satisfactory	-	11	2	As above	15/05/17
SCH	Torridon Junior	Satisfactory	-	15	9	As above	16/03/17
SCH	Brindishe Green Primary	Substantial	-	3	3	As above	20/10/16
SCH	Brindishe Manor	Substantial	-	3	-	As above	20/10/16
SCH	Holy Cross Catholic Primary	Substantial	-	3	2	As above	22/07/16
SCH	Good Shepherd Catholic School	Substantial	-	3	1	As above	11/11/16
SCH	Myatt Garden Primary	Substantial	-	4	3	As above	25/11/16
SCH	St Mary's CE Primary	Substantial	-	3	7	As above	23/12/16
SCH	Drumbeat School (Special)	Substantial	-	7	10	As above	28/03/17
SCH	Rathern Primary	Substantial	-	4	3	As above	20/01/17
SCH	Sandhurst Infant	Substantial	-	8	7	As above	28/02/17
SCH	St Augustine's Catholic Primary	Substantial	-	2	10	As above	15/03/17
SCH	Stillness Infant	Substantial	-	6	5	As above	16/03/17

Appendix 2 - Definitions of audit opinions and categories of recommendations

Level	Definition
Substantial Assurance ★	A strong framework of controls is in place to ensure that the service area is more likely to meet their objectives. In addition, the controls in place are continuously applied or with only minor lapses.
Satisfactory Assurance ●	A sufficient framework of controls is in place, but could be stronger to improve the likelihood of the service area achieving its objectives. In addition, the controls in place are regularly applied, but with some lapses.
Limited Assurance ▲	There are limited or no key controls in place. This increases the likelihood of the service area not achieving its objectives. Where key do controls exist, they are not regularly applied.
No Assurance ■	There is no framework of key controls in place. This substantially increases the likelihood that the service area will not achieve its objectives. Where key controls do exist, they are not applied.

Definitions of Category of recommendations.

High	It is crucial that this recommendation is implemented immediately. This will ensure that service area will significantly reduce its risk of not meeting its objectives.
Medium	Implementation of this recommendation should be done as soon as possible, to improve the likelihood of the service area meeting its objective.
Low	Implementation of this recommendation would enhance control or improve operational efficiency.