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AUDIT AND RISK COMMITTEE

Date: WEDNESDAY, 6 DECEMBER 2023 at 7.00 pm
Enquiries to: Hajera Khan
Email: Committee@lewisham.gov.uk

MEMBERS

Councillor Suzannah Clarke
Councillor Billy Harding
Andrew Jones
Councillor Eva Kestner
Mark Hugh McLaughlin
Marcus O'Toole
Councillor James Rathbone
Councillor Luke Sorba
Councillor Hau-Yu Tam

Members are summoned to attend this meeting

Jeremy Chambers

Monitoring Officer
Lewisham Town Hall
Catford
London SE6 4RU
Date: 28 November 2023

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

ORDER OF BUSINESS – PART 1 AGENDA

MINUTES OF THE AUDIT AND RISK COMMITTEE

Wednesday, 1 November 2023 at 7.00 pm

Members Present:

In Person: Councillor Eva Kestner (Chair), Councillor Billy Harding, Councillor James Rathbone, Councillor Luke Sorba, Councillor Suzannah Clarke

Present Remotely: Councillor Hau-Yu Tam

Independent Members Present:

In Person: Andrew Jones, Mark McLoughlin, Marcus O'Toole

Officers Present:

In Person: David Austin (Acting Executive Director of Corporate Resources), Katharine Nidd (Acting Director of Finance), Terence Madgett (Acting Chief Accountant), Hajera Khan (Committee Officer).

Present Remotely: Paul J Jacklin (Grant Thornton), Lakskhmi Forster (Grant Thornton), Joanne E Brown (Grant Thornton).

Apologies: Independent Member Stephen Warren

7. Minutes

RESOLVED that the minutes of the meeting of the Audit and Risk Committee held 13 September 2023 be agreed.

8. Declarations of Interest

None

9. 2022/23 External Audit Update

The Committee received an update introduced by the Acting Chief Accountant which included an update on the External Audit of the 2022/23 Statement of Accounts completed by Grant Thornton, an update on the 2021/22 audit findings reports recommendations and a summary of the draft 2022/23 audit findings reports. The Chief Accountant noted the progress of the audit which aims to be completed by the end of November. The draft statement was published in July 2023 and the audit has taken place between July and November. He also stated that queries and information requested by the auditors have been substantially completed and the audit findings reports and addendums will be submitted to Council on 22nd November.

The Committee also noted progress reported by the representatives from Grant Thornton the Council's external auditors as follows:

Grant Thornton are working with the Finance Team to complete the outstanding queries and they are anticipated to be signed off by the end of the month. They noted that there are continued improvements each year with every audit which is shown by the few audit recommendations included in the audit findings reports this year. The audit findings report summarise that the significant risks have not changed and include the amendments agreed with officers that will be included in the final accounts after they have been agreed at Council on 22 November. Grant Thornton thanked the Finance Team for their ongoing support.

Members asked Grant Thornton for an update for the transfer to KPMG auditors; they answered that once the final accounts have been signed off, they will be able to give them an update on the audit. The KPMG team will also be meeting with the Acting Executive Director of Corporate Resources and Acting Director of Finance in December.

The Grant Thornton representative also noted that they are in the process of finalising the Pension Fund Audit by the end of November and there are two adjustments to be made.

Members thanked Finance officers for their hard work and praised officers for the good financial management of Lewisham.

The meeting ended at 19:29

Audit & Risk Committee

Declarations of Interest

Date: 6 December 2023

Key decision: No

Class: Part 1

Wards affected: All.

Contributors: Chief Executive

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) <u>Employment,</u> trade, profession or vocation of a relevant person* for profit or gain

(b) <u>Sponsorship</u> –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) <u>Undischarged contracts</u> 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 not 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)

Lewisham

Audit & Risk Committee

External Audit Update

Date: 06 December 2023

Key decision: No

Class: Part 1

Ward(s) affected: All

Contributors: Terence Madgett, Chief Accountant

Outline and recommendations

The purpose of this report is to:

- Update the Committee on the progress of the 2022/23 External Audit of the Statement of Accounts

The committee are recommended to

- Note the contents of the report.
- Note the Audit Findings Reports 2022/23 and addendums from Grant Thornton following the external audit of the Council's Statement of Accounts and Pension Fund Accounts.
- Note the Auditor's Annual Report 2022/23 from Grant Thornton

1. Summary

1.1 The purpose of this report is update the Committee on the progress of the 2022/23 External Audit of the Statement of Accounts.

2. Recommendations

2.1 The Audit & Risk Committee are recommended to note the contents of the report.

3. Policy Context

3.1 The report is consistent with the Council's policy framework, supporting the priorities set out in the Corporate Strategy 2022-26. It contributes towards all Council priorities through effective management of finance.

4. Background

4.1 The draft 2022/23 Statement of Accounts were published on the Council's website at the beginning of July and the External Audit began shortly after.

4.2 The audit is scheduled to take place between July and November 2023, with the publication of the final audited accounts by 30 November 2023.

4.3 The draft accounts, AFRs and addendums were presented to Council on 22 November 2023 with the recommendation that "delegation to the Section 151 Officer, in consultation with the Chair of the Audit & Risk Committee, to agree any changes to the agreed audit adjustments and the final Statement of Accounts for publication, alongside the Auditor's Annual Report" be agreed. This was agreed.

5. 2022/23 Audit of Accounts Update

5.1 At the time of writing this report (27-Nov-23) Grant Thornton have almost concluded all areas of the audit.

5.2 The next step is to finalaise the couple of outstanding queries and then to include all of the agreed amendments that are included in the AFRs and Addendums, included as appendices to this report, into the draft accounts.

5.3 It is still hoped that these amendments can be made and agreed in time for the 30 November date for publication to be achieved, officers will verbally update on this at the meeting.

6. 2022/23 Audit Findings Reports

6.1 Grant Thornton, the external auditors for London Borough of Lewisham Council and Pension Fund will present the the 2022/23 Audit Findings reports and addendums for the Council and Pension Fund Audits.

6.2 Audit & Risk Committee have considered the Audit Findings reports at the meeting of 01 November 2023. The addendums, which detail the progress made since and were agreed through delegation, are presented to the Committee for the first time.

6.3 The Audit Findings Reports for London Borough of Lewisham and Lewisham Pension Fund for the year ended 31 March 2023 and addendums, list the agreed audit adjustments to be made to the draft Accounts before publication of the final audited versions. This includes adjustments in relation to Assets under Construction, Pension Fund assets and the annual leave accrual. There are also amendments to be made on the narrative elements of the accounts.

6.4 The Audit Findings Reports for 2022/23 and addendums also include action plans.

These consist of three recommendations for the Council as a result of issues identified during the course of the 2022/23 audit, two of which relate to related parties disclosures by members. These are accepted by management and so will be added to the action tracker for progress with their implementation to be reported on as part of the Audit & Risk Committee standing agenda item.

6.5 The Council's reports are included within Appendices A&B and the Pension fund reports are included within Appendices C&D

7. Auditor's Annual Report 2022/23

7.1 The Annual Report for 2022/23 covers the Value for Money (VFM) work required as part of the overall audit which was conducted by the auditors alongside completion of the Council's Statement of Accounts, Pension Fund Accounts and Annual Governance Statement audit. This is included in Appendix E.

7.2 The Annual Report for 2022/23 also includes an action plan. This consists of several recommendations for the Council following their review of the Council's arrangements for securing economy, efficiency, and effectiveness. These are still being reviewed by management. Once feedback has been provided and the action plan is accepted, the recommendations will be added to the action tracker for progress with their implementation to be reported on as part of the Audit & Risk Committee standing agenda item.

8. Financial implications

8.1 There are none arising direct from this report.

9. Legal implications

9.1 There are none arising direct from this report.

10. Equalities implications

10.1 There are none arising direct from this report.

11. Climate change and environmental implications

11.1 There are none arising direct from this report.

12. Crime and disorder implications

12.1 There are none arising direct from this report.

13. Health and wellbeing implications

13.1 There are none arising direct from this report.

14. Background papers

14.1 All relevant background papers are included as appendices or hyperlinks within.

15. Report author(s) and contact

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15.3 Paul J Jacklin, Senior Manager, Public Services, Grant Thornton UK LLP, 020 7728 3263, Paul.J.Jacklin@uk.gt.com

15.4 Ajay K Jha, Public Sector Audit Manager, Grant Thornton UK LLP, 020 7865 2276, Ajay.K.Jha@uk.gt.com

16. Appendices

16.1 Appendix A: Audit Findings Report 2022/23

16.2 Appendix B: Audit Findings Report Addendum 2022/23

16.3 Appendix C: Audit Findings Report for the Pension Fund 2022/23

16.4 Appendix D: Audit Findings Report Addendum for the Pension Fund 2022/23

16.5 Appendix E: Auditor’s Annual Report on London Borough of Lewisham Council 2022/23

The Audit Findings for London Borough of Lewisham

Year ended 31 March 2023

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

Name: Joanne Brown
For Grant Thornton UK LLP
Date: 1 November 2023

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

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

- the group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Our audit work was completed during July-October. Our findings are summarised on pages 4 to 23. We have not identified any adjustments to the financial statements that impact on the Council's General Fund position to date. We have identified audit adjustments that are detailed in Appendix D. We have also raised a recommendation for management as a result of our audit work. The recommendation is set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

Delivering a large complex London Borough audit under the current regulatory regime with the volume of work now required remains challenging. Only 5 audits in the country were signed off prior to the 30 September 2023. Management, officers and the audit team have worked hard to ensure that the audit is delivered to our agreed timetable. There has been slippage in obtaining all the evidence and resolving queries to samples selected for testing. At this stage our work in a few areas is still ongoing, but we are still planning on giving an opinion by the end of November 2023. This is very much dependent on the Council providing the outstanding items to us by the end of October 2023.

The quality of the draft financial statements presented to audit continue to improve. The financial statements have also been subject to a financial reporting technical review and this has identified a few presentational adjustments. There were fewer adjustments arising from the technical review than in previous years which supports our view that the quality of the financial statements continues to improve.

Our work is ongoing and at this stage there are no matters of which we are aware that would require modification of our audit opinion Appendix G, subject to the following outstanding matters;

- Completion of our work on the group financial statements including receipt of audited financial statements from Catford Regeneration Partnership Limited, and the required documentation from KPMG's audit of Lewisham Homes Limited.
- Receipt of our work on the valuations of land and buildings valuations.
- Completion of work on Revenue Receipts in Advance, Provisions, Leases and schools bank accounts.
- Clearance of all points arising from the technical review.
- Receipt of audited financial statements from the London Pensions Fund Authority auditor.
- Resolution of audit queries in relation to sample testing of operating expenditure, fees and charge, creditors and completion of cut off testing.
- Receipt of Full Time Equivalent listings for schools to prove leavers are appropriately removed.
- Senior Manager and Partner quality review of the audit file and satisfactory resolution of any residual queries.
- Receipt of management representation letter.
- Review of the final set of financial statements.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unqualified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have completed our VFM work, which is summarised on page 23, and our detailed commentary is set out in the separate Auditor’s Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Statutory duties

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

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

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

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit when we give our audit opinion.

Significant matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit..

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year with only 5 audit opinions being given by the 30 September deadline. The situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Council for their support in working with us to get us to this position. We are up to date with our work at the Council and are working on delivering your audit opinion by the 30 November 2023.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, there are concerns as Councils look to alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits. The Council does not have an investment property portfolio. There is an investment property that resides in Catford Regeneration Partnership Limited financial statements and therefore is consolidated into the group position. The valuation of the property is just below materiality in terms of the group financial statements.

The Council has not undertaken any new borrowing in the year and the average weighted maturity date of the debt is close to 30 years. The Council's Operational Boundary (being the limit which external debt is not normally expected to exceed) and Authorised Limit (being the limit beyond which borrowing is prohibited) have not been breached in the year.

2. Financial Statements

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined specified audit procedures for Lewisham Homes Limited on the valuation of dwellings and the valuation of the Pensions Asset. We have also undertaken specific procedures on the valuation of the Investment Property held within Catford Regeneration Partnership Limited financial statements.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter our audit plan, as communicated to you on 22 June 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion by the 30 November 2023, as detailed in Appendix G.

Acknowledgements

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

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements, but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan.

We set out in this table our determination of materiality for London Borough of Lewisham Council and group.

	Group Amount (£)	Council Amount (£)
Materiality for the financial statements	16,800,000	16,500,000
Performance materiality	10,920,000	10,725,000
Trivial matters	840,000	825,000

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relevant to Council and/or Group	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.	Relevant to Council and Group	Audit procedures undertaken in response to the identified risk included: • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. Our testing of journal entries has not identified any material misstatements or indications of management override of controls.
Improper revenue recognition Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of fraud in revenue recognition is present in all entities.	Relevant to Council and Group	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council's revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. Therefore, we did not consider this to be a significant risk for the London Borough of Lewisham There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Relevant to Council and/or Group	Commentary
Valuation of Valuation Council Dwellings, Other Land and Buildings and Surplus Assets. The Council revalues its dwellings and land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2.7 billion) and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus properties) at the financial statements date. We will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of Council Dwellings, Other Land and Buildings and Surplus Assets, as a significant risk requiring special audit consideration.	Council and Group	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated 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 from current value at year end. As reported on page 3, our work is still ongoing in this area. During our testing, management explained that during 2023/24 a decision was made to terminate a large project (Home Park & Edward Street) as the contractor had gone bankrupt. At the 31 March 2023 the assets were held as an Asset Under Construction. The Council is making an impairment adjustment to the 2022/23 accounts for these assets. Subject to the satisfactory completion of outstanding matters set out on page 3, there are no further material findings in respect of this risk which we are required to report to those charged with governance, based on the work carried out to date.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Relevant to Council and/or group	Commentary
Valuation of pension fund net liability The pension fund net liability, as reflected in the balance sheet, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (107 million in the Council's balance sheet at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Council and Group	Audit procedures undertaken in response to the identified risk included: • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Assess the accuracy and completeness of the information provided to the actuary to estimate the liabilities. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the reports from the actuary. • Undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. • Gained assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Fund. Management had bought across the surplus from the London Pension Fund Authority scheme of £34,952k. The application of accounting standard IFRIC14 which limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £32,285k and limits the asset that can be applied to £2,667k. The Group financial statements contain the Pensions Asset from Lewisham Homes Limited. The Council had not applied the accounting standard IFRIC14 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and had consolidated the full £50.2m into the group position netting this off with the Council's Pensions liability. We are currently agreeing the IFRRIC14 asset ceiling with the Council on the adjustment required to the Lewisham Home Asset. In addition, the Council will need to show the Pensions Asset separately within the group balance sheet and not net this off the Council's liability position.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Relevant to Council and/or group	Commentary
Completeness and accuracy of manual payments made by the Council between April to June 2022 At the beginning of the financial year the Council encountered a systems issue that meant they were unable to process payments automatically from some feeder systems to clients/companies in the normal way. This information had to be manually uploaded onto the Council's creditor payments system The Council reacted promptly to the issue and installed a manual workaround process to ensure suppliers were paid in accordance with agreed terms and conditions. The manual processes however, increase the risk over the accuracy and completeness of payments made. We are likely to require the use of our IT experts to assist us with our testing of the processes and reconciliations the Council implemented over this period.	Council	Audit procedures undertaken in response to the identified risk included: • updating our understanding of the processes and controls put in place by management to ensure correct payments were made to suppliers on a timely basis; • review the work completed by Internal Audit in this area; and • undertake substantive testing on manual payments made between April to June 2022. Our testing has not identified any misstatements that require reporting.

2. Financial Statements: Key findings arising from the group audit

Component	Component auditor	Findings	Group audit impact
Lewisham Homes	KPMG LLP	An unqualified audit opinion of Lewisham Homes Limited was issued by on 4 September 2023. No significant issues were identified. We are awaiting requested assurances from KPMG.	No impact.
Catford Regeneration Partnership Limited	ACF Auditing Services Limited	We are awaiting the audited opinion., on Catford Regeneration Partnership Limited.	No impact

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,200m, surplus assets £63m.	Other land and buildings comprises £1,101m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£99m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head and Eve to complete the valuation of properties as at 31 March 2023on a five yearly cyclical basis. 99% of total assets were revalued during 2022/23. Management have considered the year end value of non-valued properties and these are well below materiality levels. The total year end valuation of land and buildings was £1,200m, a net increase of £93m from 2021/22 (£1,108m).	Our work on your property valuations is ongoing. • We have assessed management's expert, Wilks Head and Eve, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • 99% of properties have been valued as at 31 March 2023. • We engaged our own valuation specialist, Gerald Eve, to provide a commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. See results from the valuation testing on page 9.	TBC

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £1,441m	The Council owns 13,772 dwellings in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer to complete the valuation of these properties. The year end valuation of Council Housing was £1,440m, a net increase of £27m from 2021/22 (£1,413m).	Our work on your property valuations is ongoing. At this stage: • We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation method this year. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2023	TBC

Page 24

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate

Net pension liability – 107m deficit.

The Council's scheme remains in a deficit position, but there are surplus positions within the London Pension Fund Authority and Lewisham Homes Limited.

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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Summary of management's approach

The Council's net pensions liability comprises assets and liabilities relating to the London Borough of Lewisham Pension Fund and London Pension Fund Authority Local Government Pension Schemes together with unfunded defined benefit pension scheme obligations.

The Council uses Hymans Robertson to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The actuary Barnett Waddingham are used for the London Pension Fund Authority Scheme.

The latest full actuarial valuation was completed as at 31 March 2022. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund liabilities, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £459m in the overall net pension fund liability in 2022/23.

Audit Comments

- We have assessed the actuaries, Hymens Robertson, to be competent, capable and objective.
- We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	4.75%	4.75%	●
Pension increase rate	3.0%	2.95 - 3.0%	●
Salary growth	4.0%	3.95 - 4.0%	●
Life expectancy – Males currently aged 45/65	21.0 22.1	*None provided	●
Life expectancy – Females currently aged 45/65	24.1 25.5		●

* Figures within the IAS19 results schedule may now show individual employer level life expectancies). As a result of the significantly larger differences at individual employer level (in comparison to LGPS fund averages), the life expectancy ranges may now be significantly wider at both the lower and upper bounds. The potential difference in range can be around 8-10 years at the extremes of individual employer level life expectancies.

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2022/23 valuation method.
- We have completed the same testing as above in relation to the Net LPFA pensions asset of £35m.

Our testing identified that the LPFA asset had not been shown gross as an asset and had been netted off the Council's liability position.

Management had bought across the surplus from the London Pension Fund Authority scheme of £34,952k. The application of accounting standard IFRIC14 which limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £32,285k and limits the asset that can be applied to £2,667k.

Assessment

Grey – purely due to the re-statement of the LPFA asset.

Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £628m credited to Service Income and £66m credited to Taxation and Non Specific Grants	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 until conditions attached to the grant or contribution have been satisfied. The Council has credited £694m of grants to the Consolidated Income and Expenditure Statement in 2022/23. The Council has received a number of Grants and Contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if not spent. The balances at the year-end for these grants is £24m. The Council acts as an Agent for Central Government in respect of the majority of Business Rates Grants that are used to support business during the current Covid pandemic. These grants are distributed by the Council from central government and therefore do no not appear in the Consolidated Income and Expenditure statement.	• We are satisfied with all the other grants tested that the Council's judgement on whether the Council is acting as the principal or agent which determines whether the authority recognises the grant at all. • Our sample testing has concluded that we are satisfied with the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. • We are satisfied over the allocation of the grants between specific or non-specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES.	Light Purple

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £14.8m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. The year end MRP charge including the repayment of principal on PFI schemes was £14,826k, a net increase of £1,187k from 2021/22	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. • The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance. • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2022. • The level of increase in the MRP charge is reasonable in the context that there has been little change in borrowing during the year. Government consulted (February 2022) on changes to the regulations that underpin MRP, to clarify that capital receipts may not be used in place of a prudent MRP and that MRP should be applied to all unfinanced capital expenditure and that certain assets should not be omitted. The consultation highlighted that the intention is not to change policy, but to clearly set out in legislation, the practices that authorities should already be following. A subsequent survey indicated amended proposals to provide additional flexibilities for certain capital loans. Government has not yet issued a full response to the consultation.	Light Purple

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating		
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure
Oracle Fusion	ITGC assessment (design and implementation effectiveness only)	🟢	🟢	🟢	🟢

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
During the audit, national news headlines reported that many Local Authorities had Reinforced Autoclaved Aerated Concrete (RAAC) within their buildings. RAAC is a lightweight form of concrete used in roof, floor, cladding and wall construction in the UK from the mid-1950s to the mid-1980s. The limited durability of RAAC roofs and other RAAC structures has long been recognised; however recent experience indicates that the problem may be more serious than previously appreciated and that many building owners are not aware that it is present in their property. RAAC has been found in a wide range of buildings including schools.	The Council's surveys have identified only one school in the borough, Myatt Garden Primary School, has having RAAC. This was only partially used in two areas of the school which we have now placed out of action, with no disruption to teaching.	We have reviewed managements approach and are satisfied that surveys have taken place and the RAAC issue was identified and appropriately reported. We are satisfied that the Council continue to follow government guidelines at this stage there is no evidence of material impairment of assets due to RAAC.

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2. Financial Statements: other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Risk Committee . We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Risk Management Committee papers.
Audit evidence and explanations	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on pages 3 which, as at the date of writing, have not yet been provided. We are still encountering delays with providing working papers and evidence to support sample items which continues to impact on the length of time it takes to deliver the audit. The financial statements were published on the timetable agreed with the Council and supporting working papers were provided. Not all of these were available at the start of the audit which led to delays in selecting some samples.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment counterparties. This permission was granted and the requests were sent. We have received responses from all counterparties.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements. We have proposed some enhancements to the accounting policies and the assumptions made about the future and other major sources of estimation uncertainty as part of our technical review. The Council has made the required amendments.

2. Financial Statements: other communication requirements

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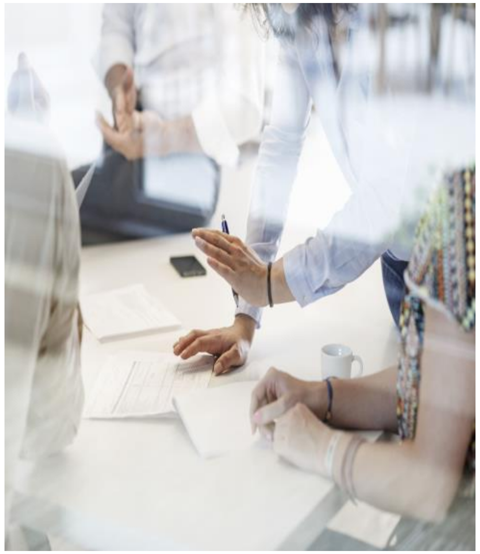
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council's financial reporting framework • the Council's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix G
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to close the 2022/23 audit of London Borough of Lewisham Council in the audit report, as detailed in Appendix G,



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3–5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements.

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

4. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teacher's Pension Return	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £269,488 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital receipts grant	52,388	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £52,388 in comparison to the total fee for the audit of £269,488 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital Receipts	7,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £7,500 in comparison to the total fee for the audit of £269,488 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level
GLA Compliance checklist	£8,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £8,000 in comparison to the total fee for the audit of £269,488 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level

4. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Company that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Group or investments in the Group held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Group as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Group
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Group's board, senior management or staff.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

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Appendices

A. Communication of audit matters to those charged with governance

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 including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Action Plan – Audit of Financial Statements

We have identified 1 recommendation for the Council as a result of issues identified during the course of our audit. We have agreed our recommendation with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	We are still encountering delays in obtaining evidence to support samples selected for audit testing. This has had an impact on our ability to complete the audit on a timely basis which has cost implications for us which increases the Council's audit fee.	The Council need to continue to work on the capacity within the finance team. In addition, departments across the Council need to be reminded of the importance of providing documentation to support the audit to the finance team on a timely basis. Management response
Medium	Related parties One Member had not returned their declaration of interest form. We also identified that the process of recordings gifts and hospitality needs strengthening. The current process is that Members submit one annual form with all the gifts and hospitality received in year.	Members need to provide their annual declarations in time for preparation of the draft financial statements. Members need to disclose any offer of gift and hospitality as and when this is offered. Management response

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

C. Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Lewisham Council's 2021/22 financial statements, which resulted in 6 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note 3 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	We have encountered some delays in obtaining information that has impacted on our ability to complete our work in an efficient manner. Notable areas where we encountered delays were obtaining cash and bank reconciliations and supporting paper work, and information supporting Property Plant and Equipment valuations. Recommendation The Council should investigate the how this initial imbalance arose.	We are still encountering delays in receiving evidence to support samples selected for audit testing. This impacts on the efficiency of the audit process.
✓	Our sample cut off testing of payments from bank statements between April and June 2022 identified payments of £389k that related to the 2021/22 year, but the expenditure had not been accrued. The extrapolated error mounts to £1,127k. Recommendation Your cut off procedures need strengthening to ensure that expenditure is coded in the year in which it relates.	Improvements have been made in cut-off training and testing. A training session was held specifically for Capital Project Managers to share best practise requirements and impact.
X	Within our testing of operating expenditure on repairs and maintenance charges on Council dwellings we identified that there is no formal documentation between the Council and Lewisham Homes to confirm the nightly call out capped charge rates. Recommendation Implement a formal agreement setting out nightly capped call out charges for repairs and maintenance jobs undertaken by Lewisham Homes.	We are awaiting evidence that this recommendation has been implemented.
✓	The Adult Social Care Controcc system is not being updated and monitored regularly to ensure the commitments stated on the system are complete and accurate. The finance team rely on the reports from Controcc system to determine outstanding commitments to be raised as creditors at year-end Recommendation The Council should ensure the Controcc system is regularly updated.	A monthly reconciliation is now undertaken which compares payments made on the Oracle system to the ContrOCC commitment report. Invoices on hold are also reviewed on an ongoing weekly basis to make sure commitments in the system are accurate to enable invoices to be processed without intervention.

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Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	The Council has significant credit balances on Council Tax and NNDR accounts due to residents and businesses. These balances have remained outstanding for several years. Recommendation The Council need to take action to either repay these creditors. In the instance where the residents or businesses cannot be traced and the legal time limits have expired, the Council should write back these amounts.	Review of creditor listings shows there are £4m of Council tax creditors and £4.6m of NNDR creditors that are over 10 years old.
✓	Schools bank accounts were not all reconciled as at 31 March 2022. Some were reconciled at an earlier date Recommendation All schools bank accounts should be reconciled as at 31 March 2023.	Schools bank reconciliations were undertaken as at 31 March 2023.

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Assessment

✓ Action completed

X Not yet addressed

D. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
During our testing, management explained that during 2023/24 a decision was made to terminate a large project (Home Park & Edward Street) as the contractor was bankrupt. At the 31 March 2023 the assets were held as an Asset Under Construction. The Council is making an impairment adjustment to the 2022/23 accounts.	Dr Expenditure impairment 21,188	Cr Land and buildings Assets Under Construction 21,188	(21,188)	£0
Management had bought across the surplus from the London Pension Fund Authority scheme of £34,952k. The application of accounting standard IFRIC14 which limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £32,285k and limits the asset that can be applied to £2,667k.		Cr Pension Asset 32,285 Dr LPFA Pensions reserve 32,285	0	0
Management had bought across the surplus from the Lewisham Homes scheme of £50,193k. The application of accounting standard IFRIC14 which limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £21,068k and limits the asset that can be applied to £29,125k.		Cr Group Pension Asset 21,068 Dr Lewisham Homes Pension Reserve 21,068		
A bank receipt of £1,146,000 was received after year, but the income related to 2022/23 . The amount had not accrued for.	Cr Income 1,146	Dr Debtors 1,146	1,146	1,146

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D. Audit Adjustments

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Impact on general fund £'000
The Council had applied the Social Housing Discount Factor to temporary accommodation. This should only be used for Council dwellings. The Council have requested their valuer to revalue these properties. The revised valuation led to an increase of £19,021k		Dr Other Land and Buildings 19,021 Cr Revaluation Reserve 19,021		
The Annual Leave Accrual was based on the best information the Council had at the time of preparing the financial statements. Year end final information from schools was received later. Once this information was taken into account it increases the accrual by £2,363k.	Dr Gross Cost of Services 2,363	Cr Short Term Compensated Absences Creditors 2,363		
Overall impact (single entity)	22,405	36,369	22,405	1,146

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D. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Management response	Adjusted?
Note 15 Cash and cash equivalents. Note 15c refers to balances of £18.7m and £17.2m overdrawn that appear to be offset in reporting the balance of cash for school bank accounts. Where there is no legal right of set off bank account balances should be shown gross and the overdrawn position shown separately.	Management have agreed to adjust the financial statements.	✓
Note 25 - Lewisham Grainger Holdings LLP the Council need to clarify the accounting arrangements and sufficiently explain the Council's interest in the company. Accounting policy note 14 refers to interest in Lewisham Grainger Holdings Ltd, but does not explain if there is joint control and if this is a joint venture. The policy needs updating. Note 25 - Special purpose vehicles Council need to make it clear these are 2022/23 payments. Note 25 -South-East London Combined Heat and Power Limited. The note needs updating to clarify that the Council's interest does not provide it with joint control and it is not a party to the joint venture.	Management have agreed to adjust the financial statements.	✓
Note 2 Group Accounts. Narrative needs to be updated to make it clear that the investment property is held solely for rentals and capital accumulation in line with the accounting standards.	Management have agreed to adjust the financial statements.	✓
Page 8 Narrative Report. The Council uses the word provisions to refer to Corporate Provisions budgets and not actual provisions in an accounting sense.	The Council has agreed to amend the wording to read "the final overspend of £7m has been managed within existing budgets without an unplanned drawing down of reserves.	✓
Page 8 Narrative Report. Dedicated Schools Grant states schools in deficit totalling 6.3m (and refers to the statutory override) but differs from Note 29.	The Council has agreed that the wording in the narrative report to agree to note 29. The updated wording states "At the end of 2022/23, there are 21 schools in deficit compared to 13 in 2021/22 (2 nursery schools, 1 special school, 1 secondary school and 17 primary schools) totalling £13.1m.	✓
Page 11 Narrative Report. Capital budget outlook states the council's programme for 2022/23 to 2024/25 is £59.1 m for the General Fund and £541.3m for the HRA. The table reports the budget for 2023/24 to be £69.8m which is higher than the total for the three years referred in the narrative.	The Council has agreed to add an additional sentence that states "Due to significant slippage in the capital programme from 2021/22 into 2022/23 and from 2022/23 into 2023/24, in particular in Non-HRA Housing schemes, the budget for 2023/24 General Fund Capital expenditure has increased from £23.9m to £69.8m.	✓

D. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure/issue/Omission	Management response	Adjusted?
Throughout the primary statements – the Council uses (brackets) inconsistently and departs from accepted treatment of (brackets) representing credits/ income.	Management have agreed to adjust the financial statements.	✓
Accounting policy note 15b re impairment of debt. The note makes no reference to the requirements for expected credit loss under IFRS 9 (differs from council tax debt which continues to operate on an incurred loss model).	The Council has agreed to update accounting policy 15 to reference how they account expected credit losses under the requirements of IFRS9.	✓
Accounting policy note 19b states financial assets are classified at amortised cost, but refers only to business model aspect of the test. Note 12 reports £90.9m of asset to be fair value through profit or loss but this is not covered by the accounting policy.	The Council has updated the accounting policies.	✓
Expenditure Funding Analysis. The analysis of the adjustment of £15m does not agree to the narrative explanation.	The Council has agreed to amend the narrative so that it agrees to the table i.e. £10.6m HRA adjustment with the remaining £4.5m adjustment to the General Fund.	✓
Capital grants unapplied account Note 42 . The balance reports £25.879m, but balance sheet states £26.615m. Note 42 reports a debit balance for other housing grants of £3.076m which is inappropriate.	Management have agreed to adjust the financial statements.	✓
Accounting policies adopted in the new year. The Council incorrectly referred to IFRS 16 new leasing standard as this wont be adopted in 2023/24. The Council need to disclose the other standards as referred in the CIPFA closedown bulletin.	The Council has removed the reference to IFRS 16 and added their consideration of the standards included in the closedown bulletin including IAS8, IAS1, IAS12 and IFRS3.	✓
Note 4. Assumptions made about the Future and other Major Sources of Estimation Uncertainty. Estimation uncertainty for Property Plant and Equipment and HRA does not explain the assumptions that would give rise to a change in the valuation for different categories of asset. The note also refers to fair value rather than current value and the HRA section incorrectly refers to investment property.	Management have agreed to adjust the financial statements.	✓
Note 4. Assumptions made about the Future and other Major Sources of Estimation Uncertainty. The impairment focusses on expected credit loss, but at least £39m of the impairment appears to be outside the scope of IFRS. No sensitivity analysis to explain how the carrying value is affected by changes in key assumptions.	The Council has updated the wording and added some sensitivity analysis into the note.	✓

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D. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure/issue/Omission	Management response	Adjusted?
Note 4. Assumptions made about the Future and other Major Sources of Estimation Uncertainty. Estimation uncertainty for venture capital (private equity and infrastructure) and property investment valuations does not explain what asset/ liability this. The sensitivity reported for property investment valuation suggests that immaterial so needs to be removed.	Management have agreed to adjust the financial statements.	✓
Note 18 and accounting policy on page 34 the definitions for provisions are not consistent with the accounting standard IAS37. The Council need to be clear the provision results from a past event with future settlement that is uncertain in timing or amount.	Management have agreed to adjust the financial statements	✓
Earmarked reserves and unusable reserves in the Balance sheet are different to the MIRS by £1.938m This also impacts on Note 8 MIRS adjustments note reports credit to General Fund of £2.287m but note 20 reports deficit on DSG to be £4.225m.	This was due to a late amendment between the Dedicated Schools Grant Deficit reserve and the schools balances reserve (£1,938k). The Council have updated the financial statements	✓
Note 31c related party transactions. In relation to the companies the Council need to clarify the arrangements and the accounting under the standards.	Management have agreed to adjust the financial statements.	✓
Cash flow statement notes 44, 46 and 47. Note 44 contains description of “other items” £26m at note 44 “other receipts” £27.8m at note 46 and “other payments “ £19m at note 47. Material items need to be further analysed.	Management have agreed to adjust the financial statements.	✓
HRA. Net cost of HRA services of £25.432m is inconsistent with the CIES which reports £25.564m.	Amendment to Contribution to Expenditure has been made in the HRA (with a corresponding adjustment to the HRA MIRS.	✓
Note 31. The balances in the related party note 31 relating to Lewisham Homes Limited and Catford Regeneration Limited do not match the group accounts note 6 and group MIRS. The disclosure for Lewisham Schools for the Future SPV3 Limited of £4.9m should be £4.8m.	The balances in note 31 have been updated so they now match.	✓
Group Accounts Note 5. There are no disclosures for the Investment property to meet the requirements of Code 4.4.4. Also there are no leasing disclosures.	Management have agreed to adjust the financial statements.	✓
Note 30 Grant claims. There were various classification misstatements across the Grant income note. There was no impact on the bottom line position in the note.	Management have agreed to adjust the financial statements.	✓

D. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure/issue/Omission	Management response	Adjusted?
Group Accounts reserves. There is no disclosure to meet the requirement of Code 3.4.2.68 (description of nature and purpose of reserve, balance and movement in year) for the group revaluation reserve and the Lewisham Homes pension reserve.	Management have agreed to adjust the financial statements.	✓
Note 27a: Officers remuneration over £50k. The following bandings are incorrect: The band £50,000-£54,999 is 187 and should be 191 Band £55,000-£59,999 is 97 and should be 95, Band £60,000-£64,999 is 66 but should be 64 Band £90,000-£94,9999 should be 0 but is 1.	Management have agreed to adjust the financial statements	✓
Note 27c: Exit packages agreed in year. There is an officer in the '£100,001 and over' band that comes from Lewisham homes. This should be removed as this does not relate to the Council. The number of personnel in the following bands has also been misstated: Band £0-£20,000 should be 69 and not 68 Band £20,001-£40,000 should be 36 and not 35 Band £40,001-£60,000 should be 15 and not 16.	Management have agreed to adjust the financial statements	✓
Financial instruments disclosures. The following amendments are required: • Note 12a, the amount of Short term debtors - Financial assets at amortised cost should be £37,318k instead of £33,080k. • Note 12b, the amount of Short term debtors should be £37,318k for financial instrument and £33,297k for Non Financial Instrument. This will also change the total of Debtors - Financial instruments from £93,317k and to £97,555k and total of Debtors - Non - Financial instruments from £26,546k and to £33,297k. • Note 12a, the amount of Short term creditors - Financial liabilities at amortised cost should be £87,448k instead of £88,819k. • Note 12b, the amount of Short term debtors should be £87,448k for financial instrument and £58,698k for Non Financial Instrument. This will also change the total of creditor - Financial instruments and creditors - non financial instruments to these figures. • Note 12c, the amount of Expected Credit Loss for Financial assets measured at amortised cost should be £3,314k instead of £3,926k. • Note 12d, the carrying value of Financial Assets Held at Amortised Cost - Debtors - £97,555k and carrying value of Financial liabilities at amortised cost - Creditors - £87,448. • Narrative below the table at note 12d page 63 refers to the Fair Value as being greater than the carrying value. The position has changed from 2021/22, but the narrative has not been updated to reflect this change	Management have agreed to adjust the financial statements	✓

D. Audit Adjustments

Misclassification and disclosure changes continued

Disclosure/issue/Omission	Management response	Adjusted?
Note 14 Debtors. There was a classification misstatement within the note. Central Government bodies has been amended from £11,662k to £11,044k and Housing Rents (inc PSL, B&B, Hostels, Commercial) has been amended from £10,991k to £11,609k.	Management have agreed to adjust the financial statements.	✓
Note 29 Dedicated Schools grant. A revised note has been provided in which has the following impact. • Actual Central Expenditure was amended from £65,540k to £68,507k • Actual Individual Schools Budget deployed was amended from £217,969k to £214,501k • Local authority contribution has changed from £500k to 0	Management have agreed to adjust the financial statements	✓

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D. Audit Adjustments (continued)

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Impact of unadjusted misstatements

The table below provides details of adjustments identified during the audit which had not been made within the final set of statements.

D. Audit Adjustments (continued)

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2021/22 financial statements

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
Our testing of Adult Social Care Creditors identified two items total value of £247k that were not valid creditors. The error extrapolated to £3,885k.	Cr Adult Social Care Expenditure 3,885	Dr creditors 3,885	This is an extrapolated misstatement and is not material.
In revising the IAS19 work the actuary Hymans Robertson has adjusted the Salary increase rate from 3.90% to 4.20% and increase in 0.3% which will add 1.5% to the liability (0.5% for every 0.1% increase as per the original PWC report). The Lewisham net liability is £584,415k so this adds £8,766k to the liability. Our view is that the salary assumption should not have been amended so the liability is overstated.	Cr Remeasurement of the net defined benefit liability 8,776	Dr Liability related to defined benefit pension scheme 8,776	This is an estimate of potential misstatement.
Total unadjusted misstatements including this Addendum on CIES.	12,661	12,661	

Note that the IAS19 adjustment would now have worked its way through in the 2022/23 assessment. We are satisfied all the assumptions in the IAS19 report are consistent with the PWC report so we don't have a similar issue in 2022-23.

E. Fees and non-audit services

We confirm below our final fees charged for the audit

Audit fees	Proposed fee. TBC
New scale fee	£170,039
Group	£2,630
Reduced materiality	£6,575
Use of expert	£9,994
Additional Requirements – Payroll Change of Circumstances (Information Provided by the Entity) IPE Testing	£500
Additional Requirements – Collection Fund Reliefs (Information Provided by the Entity) IPE Testing	£750
Value for Money audit – new NAO requirements	£20,000
ISA 540	£6,000
ISA 315	£5,000
Additional journals testing	£3,000
Infrastructure	£2,500
Quality review – response to FRC technical reviewer	£1,500
Triennial valuation work	£3,500
Other local factors – This will this takes account the likelihood of extra sampling, testing, new guidance plus the additional work we need to complete on the manual payments made earlier in the year.	£37,500
Total audit fees (excluding VAT)	**£269,488**

At this stage this is the proposed fee as set out in the Audit Plan. The final fee will be confirmed at the end of the audit once all the evidence requested has been obtained and remaining queries resolved. The fee is dependent on the audit work being completed by 3 November 2023.

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services eg Grant Claims	78,000	TBC

The fees reconcile to the financial statements.

None of the above services were provided on a contingent fee basis. This covers all services provided by us and our network to the group, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

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Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

G. Audit opinion

Independent auditor's report to the members of London Borough of Lewisham [DRAFT SUBJECT TO CONCLUSION OF AUDIT]

Report on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements of London Borough of Lewisham (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2023, which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Comprehensive Income and Expenditure Account, Housing Revenue Account Movement in Reserves Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2023 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director for Corporate Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group and the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority or the group to cease to continue as a going concern.

In our evaluation of the Executive Director for Corporate Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Authority's and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the group and the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the group and Authority and the group and Authority's disclosures over the going concern period.

In auditing the financial statements, we have concluded that the Executive Director for Corporate Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

G. Audit opinion

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

Our responsibilities and the responsibilities of the Executive Director for Corporate Resources' with respect to going concern are described in the relevant sections of this report

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. The Executive Director for Corporate Resources is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE, or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority and the Executive Director for Corporate Resources

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director for Corporate Resources. The Executive Director for Corporate Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director for Corporate Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

G. Audit opinion

In preparing the financial statements, the Executive Director for Corporate Resources is responsible for assessing the Authority's and the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Authority and the group without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and Authority and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003), Local Government Act 1972, Local Government and Housing Act 1989 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and Local Government Finance Act 2012.

We enquired of management and the Audit and Risk committee, concerning the group and Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management, internal audit and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Authority and group's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk management override of controls. We determined that the principal risks were in relation to:

— journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and

— accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet

Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Executive Director for Corporate Resources has in place to prevent and detect fraud;
- journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings including council dwellings, and the valuation of the defined benefit pensions asset valuations;
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

G. Audit opinion

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including potential for fraud in revenue and expenditure recognition and significant accounting estimates related to property, plant and equipment and accruals. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit

Our assessment of the appropriateness of the collective competence and capabilities of the group and Authority's engagement team included consideration of the engagement team's:

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government sector in which the group and Authority operates
- understanding of the legal and regulatory requirements specific to the Authority and group including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Authority and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority and group's control environment, including the policies and procedures implemented by the Authority and group to ensure compliance with the requirements of the financial reporting framework.

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

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Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2023.

We have nothing to report in respect of the above matter.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in January 2023. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

G. Audit opinion

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

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements – Audit certificate

We certify that we have completed the audit of London Borough of Lewisham for the year ended 31 March 2023 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

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

Joanne Brown, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

Grant Thornton

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The Audit Findings Report Addendum for the London Borough of Lewisham

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Year ended 31 March 2023

December 2023

Audit Adjustments

Since the Audit and Risk Committee meeting on 1 November 2023, we have identified the following adjusted misstatements in the Council's financial statements which we are required to report to you.

Detail	CIES £'000	Balance Sheet £' 000	Total impact on expenditure
Note 16 Creditors. The client has proposed the following amendments to collection fund creditors. • NDR from £4,467k to £4,836k. • Central Government bodies from £28,791k to £29,049k. • Other Local Authorities from £13,374k to £14,232k. Total increase = £1,285k	Dr expenditure 1,285	Cr Creditors 1,285	Total impact reduced expenditure by £1,285k
Note 14. The following Collection Fund Debtors required amending: • Council Tax Payers reduced from £38,450k to £36,450k • NDR Payers reduced from £2,724k to £2,598k Total = £2,082k reduction in debtors	Dr Income 2,082	Cr Debtors 2,082	Total impact reduced income by £2,082k.
Note 10b. The client has proposed the following amendments to Other land and Buildings. The client for Broadway Theatre completed revaluation movements without taking into consideration the capital expenditure during the year. This results in a reduction of the Net Book Value by £6,457k.	Dr Revaluation reserve 6,457	Cr Other Land and Buildings 6,457	No impact on expenditure
Total adjustments from the Audit Findings Report	22,405	36,369	
Total	32,229	43,193	

Unadjusted misstatements

Since submitting the Audit Findings Report to the Audit and Risk Committee, we have identified the following unadjusted misstatements in the Council's financial statements which we are required to report to you. Note that there were no unadjusted misstatements identified in the Audit Findings Report.

Detail	CIES £'000	Balance Sheet £' 000	Reason for not adjusting
We have identified two errors in our completeness testing of bank receipts. Testing identified income that related to 2022-23 that was not correctly accrued for and coded to 2023-24. The total value of incorrectly accrued income was £842k and the total extrapolation is £2,525,972	Cr Income 2,526	Dr Debtors 2,526	Misstatement is not material and is an estimate.
In our creditors sample testing we have identified one failed sample of sample amount £137k (overstatement of creditors as paid in-year). This misstatement extrapolates to £1,163k.	Cr expenditure 1,163	Dr creditors 1,163	Misstatement is not material and is an estimate.
We have identified errors in our DRC testing where there were differences in GIA identified, this was extrapolated over the DRC population. New woodlands school GIA was overstated by 611sq.m, Coopers lane school a transposition error between the GIA for two blocks resulted in the valuation changing, Rushey Green primary school there is an area of 10 sq.m which relate to the rear entrance for which floor plans could not be provided for. This results in an overstatement of the valuation.	Dr Revaluation Reserve 4.805	Cr Other Land and Buildings 4,805	Misstatement is not material and is an estimate
Unadjusted Total	Improves the Council's position by 3,689	Improves the Council's position by 3,689	

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Disclosure Amendments

Since submitting the Audit Findings Report to the Audit and Risk Committee, we have identified the following additional disclosure misstatements in the Council's financial statements which we are required to report to you. The Council has agreed to adjust the accounts for each of these.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	Loss on disposals of £48,091k in the Comprehensive Income and Expenditure statement did not reconcile to the disposal in Property Plant and Equipment note 10b and reported capital receipt.	✓
Disclosure	A transfer between asset categories has been recorded as a disposal and an addition in note 10b. In addition, two assets which have been classified as disposals are not true disposals. The assets have been split into various different assets as the asset as they have been been re-developed into flats for housing. These should be accounted for as re-classifications.	✓
Disclosure	Note 12. The balance described as investment of £90,963k is cash equivalents on the balance sheet so is not consistent. Bank overdraft of £0.592k is netted off cash balance. Cash balances should be shown gross.	✓
Disclosure	Note 12c. The prior year comparator balances need to be corrected back to the 2021-22 audited financial statements. The expected credit loss line was deleted as no credit loss.	✓
Disclosure	Note 13 d. The note incorrectly stated all of the Council's financial instrument assets are held at amortised cost as £90.9m are held at Fair Value Through Profit and Loss. The expected credit loss does not apply to assets that are measured at fair value. The expected credit loss disclosed of £0.025m does not make clear that additional impairment of £68m reported in note 14c, some of this is in the scope of IFRS 9.	✓
Disclosure	Note 13e. The maturity analysis for PWLB and LOBO borrowing is inconsistent with carry values reported at note 12d	✓

Disclosure Amendments continued

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	Narrative report page 11 - Capital Budget outlook was updated to agree to the report that went to Mayor and Cabinet in July . Figures updated from £208.9m to £190.7m.	✓
Disclosure	Note 27c: Exit packages agreed in year. There is a member in the '£100,001 and over' band that comes from Lewisham Homes. This should be removed as this does not relate to the Council. The number of personnel in the following bands has also been misstated: Band £0-£20,000 should be 62 and not 68 Band £20,001-£40,000 should be 37 and not 35 Band £40,001-£60,000 should be 22 and not 16. £60,001 to £80,000 should be 5 and not 4. The total number of exit packages should be 130 and not 128. (Before removing the Lewisham Homes and a GLL member) The total cost of Exit packages has also been incorrectly stated for the same bands as stated below: £0-£20,000 should be £575k and not £634k £20,001-£40,000 should be £1001k and not £968k £40,001-£60,000 should be £1,084k and not £795k. £60,001-£80,000 should be £333k and not £267k £100,001 and over should be £568k and not £707k. The total cost of exit packages should be £3,560k and not £3,371. (Before removing the Lewisham Homes and GLL member)	✓
Disclosure	Note 35 – The Capital commitments disclosure note required updating by the Council so that only expenditure that is contractually committed is disclosed within the note.	✓

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Disclosure Amendments continued

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Disclosure	£25m of Lender Option Borrower Option Loans (LOBO) classified as Long Term Borrowing have now been repaid in 2023-24. These should therefore have been classified as short term.	✓
Disclosure	Narrative statement page 8 note (d) balances and reserves HRA balance and reserves comparative was amended from £30.3m to £32.1m as per prior year audited statements.	✓
Disclosure	Notes to EFA page 48 (i) Segmental income and expenditure Material items or income and expense 21/22 comparative figures were amended from £38,721k to £36,907k.	✓

A. Action plan – Audit of Financial Statements

In addition to the recommendations reported in the Audit Findings Report, we have identified a further recommendation. We have agreed our recommendation with management. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	Our testing of related party interest identified two Members that were directors in companies that had not disclosed this interests in their declaration form. The Members did not control either the Council or the companies so no disclosure in the financial statements was required.	The Council need to undertake their own testing to ensure the completeness and accuracy of Members related party interest disclosures.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

The Audit Findings Report for London Borough of Lewisham Pension Fund

Year ended 31 March 2023

October 2023

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UPDATE PAPER FOR COMMITTEE ON 1 NOVEMBER 2023 WHICH WILL BE FINALISED ON CONCLUSION OF THE AUDIT

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings [DRAFT] presents the observations arising from the audit to date that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit and Risk Committee on 1 November 2023 and finalised thereafter on conclusion of the outstanding audit work.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Lewisham Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

Financial Statements

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

- the Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on site and remotely during September-October. Our findings are summarised on pages 3 to 17. We have identified 1 adjustments to the financial statements that has resulted in a £1.152m adjustment to the Pension Fund's reported financial position. During the testing we found one disclosure error in level 2 Investments, we noted a difference £120m as per Fund Manager and Northern Trust reports which had been split between level 1 as £2.8m and level 2 as £117m in the Pension fund Accounts, whereas this whole balance of £120m should be classified as level 2. This has been amended by the pension fund. Audit adjustments are detailed in Appendix B

Our work is in progress, at the time of issuing the report we found no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Pending queries on variance noted in Investments
- Outstanding SOC reports and bridging letters for level 3 investments
- Outstanding investments statements and audited accounts
- Pending queries on classification of Investments under financial instruments
- Pending queries on variance in Annual report
- Audit team to complete testing of Journals sample
- Confirmation response from Council's legal officer
- Receipt of management representation letter; and
- Review of the final set of financial statements.

The other information comprises the Annual report which includes AGS, and narrative report included in the other than the Pension Fund's financial statements and our auditor's report thereon. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated opinion on the financial statements will be unmodified.

1. Headlines

National context – audit backlog

Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see About time? (grantthornton.co.uk)

We would like to thank everyone at the Pension Fund for their support in working with us. During the audit we encountered some difficulties in obtaining timely responses from the you which delayed the progress, as a result, we had to allocate additional resources to ensure that the audit is completed within the agreed deadline. This caused a temporary increase in the budgeted hours for the pension fund audit, which has had some cost implications to us. Overall, we feel the audit and client teams have worked constructively together to resolve any audit queries and we aim to complete the audit by the end of November 2023.

Local context - triennial valuation

Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Hymans Robertson, and showed that Lewisham Pension Fund is 97% funded at 31 March 2022. The results of the latest triennial valuation are reflected in the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. This was to support our work by providing assurances to auditors of employer bodies. As part of this work, we tested a sample and found the source data to be complete and accurate. This additional testing is only required after each triennial review, rather than annually.

2. Financial Statements

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

For London Borough of Lewisham Pension Fund, the Audit and Risk Committee fulfil the role of those charged with governance.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and was risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.
- Significant risks - those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

a. Presumed risk of fraud in revenue recognition(rebutted)

b. Management over-ride of controls

c. Valuation of level 3 investments

We have also reported on other risks identified in our audit plan which were

- valuation of Level 2 Investments

- contributions

- pension Benefits Payable

- actuarial present value of promised retirement benefits

- actuarial valuation of the fund as at 31 March 2022

We have not had to amend our audit plan, as communicated to you in June 2023 at the Audit and Risk Committee meeting.

Further to this, we cannot give our opinion on the accounts until we have completed the audit of London Borough of Lewisham.

Conclusion

Our work is in progress, at the time of issuing the report we found no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- Pending queries on variance noted in Investments
- Pending queries on classification of Investments
- Pending queries on variance in Annual report
- Testing of Journals sample
- Testing of Transfers In sample
- Confirmation response from Council's legal officer
- Receipt of management representation letter; and
- Review of the final set of financial statements.

Acknowledgements

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

Our proposed fee communicated in our audit plan was £49,056, as highlighted in Appendix C – Final Audit Fees is TBC.

2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan on June 2023

We set out in this table our determination of materiality for the Pension Fund.

We had determined materiality for this audit during our risk assessment and planning is determined based on the level of risk associated with the financial statement assertions. That was based on 21-22 financial results, there has been no material change year on year to investments assets portfolio and fund expenditure for 22-23, it suggests that the risks associated with the financial statement assertions have remained constant. Therefore, we have continued to use materiality assessed at planning stage for 22-23 full audit of pension fund financial statements.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	17,750,000	Headline Materiality is approximately 1% of your Investment Assets for the year 21/22 rounded to £17,750,000
Performance materiality	11,537,500	Performance Materiality is 65% of the Headline materiality £11,537,500
Trivial matters	887,000	Triviality 5% of Headline materiality is £887,000
Materiality for fund account	5,400,000	This benchmark is determined as a percentage of the Funds expenditure, which has been determined at approximately 8%
Trivial matters for Fund account	270,000	Triviality is set at 5% of Headline materiality.

2. Financial Statements: Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement 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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny, and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	During the audit, we undertook the following work: ▪ evaluated the design effectiveness of management controls over journals ▪ analysed the journals listing and determine the criteria for selecting high risk unusual journals ▪ identified and tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration ▪ gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness with regard to corroborative evidence ▪ evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our work over journals is not yet complete, at the time of issuing this report our audit work has not identified any issues in respect of management override of controls.
The revenue cycle includes fraudulent transactions (rebutted) Under ISA(UK)240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Under ISA(UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the Pension Fund revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Revenue is largely in the form of employee and employers' contributions from the Council and Admitted and Scheduled bodies plus investment income from the fund managers so is relatively easy to predict. Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including London Borough of Lewisham, mean that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk at for the London Borough of Lewisham Pension Fund.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments The Fund value its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£151 million at 31 March 2022) and the sensitivity of this estimate to changes in key assumptions. 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. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2023.	We have: • evaluated management's processes for valuing Level 3 investments • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requested year-end confirmations from investment managers and the custodian • for all investments, tested the valuation by obtaining and reviewing the audited accounts(where available), at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2023 with reference to known movements in the intervening period. • evaluated the completeness, capabilities and objectivity of the valuation expert • reviewed investment manager service auditor report on design and operating effectiveness of internal controls. Our work over level 3 investment is ongoing. At the time of issuing this report our audit work has not identified any issues in respect of the valuation of Level 3 investments.

2. Financial Statements: Other risks

Risks identified	Commentary
Valuation of Level 2 Investments While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	We: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; • independently requested year-end confirmations from investment managers and custodian; and • reviewed investment manager service auditor report on design effectiveness of internal controls. Our work over level 2 investment is ongoing. At the time of issuing this report our audit work has not identified any issues in respect of the valuation of Level 2 investments.
Contributions Contributions from employers and employees' represents a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	We: • evaluated the Fund's accounting policy for recognition of contributions for appropriateness; • gained an understanding of the Fund's system for accounting for contribution income and evaluate the design effectiveness of the associated controls; • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends are satisfactorily explained. Our audit work did not identify any issues in respect of Contributions.

2. Financial Statements: Other risks

Risks identified	Commentary
Pension Benefits Payable Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	We: • evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • tested a sample of lump sums and associated individual pensions in payment by reference to member files; and • tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. Our audit work at the time of writing the report did not identify any issues in respect of the benefits payable.
Actuarial Present Value of Promised Retirement Benefits The Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Fund as a risk of material misstatement.	We: • updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluate the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation; • assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability; • tested the consistency of disclosures with the actuarial report from the actuary; and • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report. Our audit work did not identify any issues in respect of the Actuarial Present Value of Promised Retirement Benefits.

2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments (£353.99million) By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements. 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.	The Pension Fund has investments in pooled investment(£76.617 million) and venture capital(£277.373) that are valued on the net assets statement as at 31 March 2023. The Fund revalues its investments to ensure that the carrying value is not materially different from the fair value at the financial statements date. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management rely on the valuation provided by the Fund Manager.	The valuation of the Level 3 Investments is reasonable. We consider management's process is appropriate and key assumptions are neither optimistic or cautious, as we have considered all evidence obtained during the audit, including both corroborative and contradictory audit evidence, when evaluating the appropriateness of these accounting estimates.	● **[Light Purple]**
Level 2 Investments (excluding Direct Property) – £270.358 million	The Pension Fund have investments majorly in Pooled Investment Vehicles(£152.742 million) and Pooled property investment(£117.586) that are valued on the Net Asset Statement as at 31 March 2023. Whilst these investments themselves are not actively traded on an open market, the underlying investments are and the valuations of these investments are based on the value of these underlying investments at 31 March 2023.	The valuation of the Level 2 Investments is reasonable. We consider management's process is appropriate and key assumptions are neither optimistic or cautious, as we have validated the sources of information used by management, management's point estimate and disclosures relating to this accounting estimate.	● [Light Purple]

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Assessment

- [Dark Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	Level of assessment performed	Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	Related significant risks/other risks
Oracle	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Management override of controls
Pension Administration System – Altair	ITGC assessment (design and implementation effectiveness only)	●	●	●	●	Valuation of Level 3 and level 2 investments

Assessment

- ● Significant deficiencies identified in IT controls relevant to the audit of financial statements
- ● Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- ● IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ● Not in scope for testing

2. Financial Statements: other communication requirements

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

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Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and risk Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund , which is included in appendix E.
Audit evidence and explanations	The client provided a comprehensive set of Pension Fund Financial Statements and were responsive to audit queries raised. All information and explanations requested from management was provided, although there was delay in receiving sufficient audit evidence from Investment manager.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all of the Pension Fund Investment Managers. This permission was granted and all of these requests were returned with positive confirmation. We requested management to send letters to those solicitors who worked with the Pension Fund during the year. We have requested management to follow up the outstanding responses from the Investment Fund Managers.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

2. Financial Statements: other communication requirements

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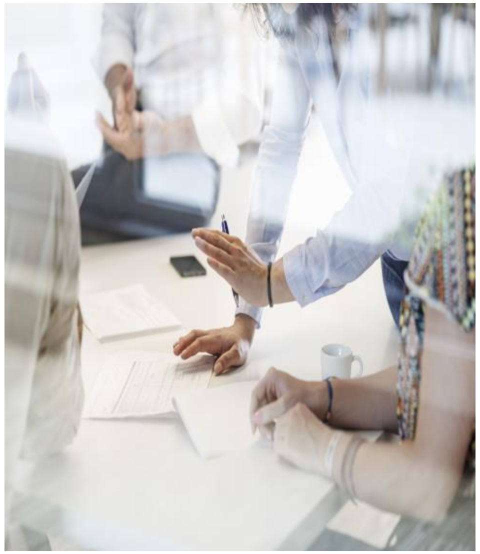
Our responsibility

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

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	The Pension Fund is administered by London Borough of Lewisham Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements. We are required to read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority. No inconsistencies have been identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect – refer to Appendix F [subject to conclusion of the o/s testing listed]
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on the same day we give our audit opinion, subject to review of the final version of this report. We are required to report if we have applied any of our statutory powers or duties as outlined in the Code. We have nothing to report on these matters.



3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Grant Thornton International Transparency report 2023.

3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Following this consideration, we can confirm that we are independent and are able to express an objective opinion on the financial statements. In making the above judgement, we have also been mindful of the quantum of non-audit fees compared to audit fees disclosed in the financial statements and estimated for the current year.

Appendices

A. Communication of audit matters to those charged with governance

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 including significant risks	•	
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	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

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

Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net assets for the year ending 31 March 2023.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
We also noted a difference of £1,152,099.97 which identified when agreeing auditors recalculated valuation balance at year-end for HarbourVest Global Equity Fund to the Accounts Note 13c. Management understated their assets by £1,151,009.97 which means that the net assets value in financial statement was lower. Management has agreed to amend their Accounts to agree with Fund Manager reports.	1,152	1,152	1,152
Net increase/(decrease)	**£1,152**	**£1,152**	**£1,152**

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
There were a few minor disclosure issues that management adjusted for following our review of the draft statement of accounts. This reflected the comprehensive set of accounts that management produced for audit.	We requested management to amend for these errors they were minor in nature	✓
During the testing we found one disclosure error in level 2 Investments, we noted a difference £120m as per Fund Manager and Northern Trust reports which had been split between level 1 as £2.8m and level 2 as £117m in the Pension fund Accounts, whereas this whole balance of £120m should be classified as level 2. This has been amended by the pension fund.	We requested management to amend for these errors, and management have agreed to adjust for these	✓

C. Fees and non-audit services

We confirm below our Proposed fees charged for the audit.

Audit fees	Proposed fee
Scale Fee for 2022-23	22,420
Valuation of investments	5,036
Additional requirement – payroll change of circumstances	500
Impact of ISA 540	3,600
Impact of ISA 315	3,000
Journals testing	2,000
Other Local factors such as extra sampling, testing and new guidance	12,500
Proposed Pension Fund Audit Fee	49,056
Total Final Audit Fees (excluding VAT)	TBC

D. Auditing developments

Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'
This impacts audits of financial statement for periods commencing on or after 15 December 2021.
ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'
ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.

E. Management Letter of Representation

Grant Thornton UK LLP

30 Finsbury Square

London

EC2A 1AG

[Date] – {TO BE DATED SAME DATE AS DATE OF AUDIT OPINION] **DRAFT SUBJECT TO CONCLUSION OF AUDIT**

Dear Sirs

London Borough of Lewisham Pension Fund - Financial Statements for the year ended 31 March 2023

This representation letter is provided in connection with the audit of the financial statements of London Borough of Lewisham Pension Fund for the year ended 31 March 2023 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Such accounting estimates include valuation of level 3 investments. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

a) there are no unrecorded liabilities, actual or contingent

B) none of the assets of the Fund has been assigned, pledged or mortgaged

C) there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

x. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xi. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xii. We have updated our going concern assessment. We continue to believe that the Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that that :

a) the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b) the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

C) the Fund's system of internal control has not identified any events or conditions relevant to going concern.

We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

E. Management Letter of Representation

Information Provided

xii. We have provided you with:

a) access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b) additional information that you have requested from us for the purpose of your audit; and

c) access to persons within the Fund via remote arrangements from whom you determined it necessary to obtain audit evidence.

xiii. We have communicated to you all deficiencies in internal control of which management is aware.

xiv. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xv. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xvi. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xvii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xviii. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

a) management;

b) employees who have significant roles in internal control; or

c) others where the fraud could have a material effect on the financial statements.

xix. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xx. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxi. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxiii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

The approval of this letter of representation was minuted by the Audit and Risk Committee.

Yours faithfully

Name................................

Position..............................

Date.................................

Name................................

Position..............................

Date.................................

Signed on behalf of the Fund

F. Audit opinion

Independent auditor's report to the members of London Borough of Lewisham on the pension fund financial statements of London Borough of Lewisham Pension Fund DRAFT ONLY SUBJECT TO CONCLUSION OF THE AUDIT

Opinion on financial statements

We have audited the financial statements of **London Borough of Lewisham Pension Fund** (the 'Pension Fund') administered by **London Borough of Lewisham** (the 'Authority') for the year ended 31 March 2023, which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Corporate Resource's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Executive Director of Corporate Resource's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2022) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period. In auditing the financial statements, we have concluded that the Corporate Director Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

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

Our responsibilities and the responsibilities of the Executive Director of Corporate Resource with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements and our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. The Executive Director of Corporate Resource is responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements, the other information published together with the Pension Fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

F. Audit opinion

Responsibilities of the Authority and the Executive Director of Corporate Resource

As explained more fully in the Statement of Responsibilities set out on page xx, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Corporate Resource. The Executive Director of Corporate Resource is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Corporate Resource determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Executive Director of Corporate Resource is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have been informed by the relevant national body of the intention to dissolve the Pension Fund without the transfer of its services to another public sector entity.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. Irregularities, including fraud, are instances of non-compliance with laws and regulations. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2022/23, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003).

We enquired of management and the Audit and Risk Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;
- the detection and response to the risks of fraud; and
- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and any other fraud risks identified for the audit. We determined that the principal risks were in relation to the valuation of Level 2 and 3 Investments. Our audit procedures involved:

- evaluation of the design effectiveness of controls that management has in place to prevent and detect fraud,
- journal entry testing, with a focus on year-end journals,
- challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of Level 2 and 3 Investments,
- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including [add details of risks]. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
- knowledge of the local government pensions sector
- understanding of the legal and regulatory requirements specific to the Pension Fund including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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

F. Audit opinion

Use of our report

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

Joanne Brown, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date: November 2023

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The Audit Findings Report Addendum for London Borough of Lewisham Pension Fund

Year ended 31 March 2023

UPDATED AS AT 13 November 2023

Financial statements

Our work is in progress, at the time of issuing the report we found no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- outstanding SOC reports and bridging letters for level 3 investment LCIV Renewable
- letter of instructions/ engagement from LCIV PEPPA and HarbourVest
- updated final annual report
- receipt of management representation letter; and
- review of the final set of financial statements.

Our anticipated opinion on the financial statements will be unmodified.

Disclosure Amendments

Since submitting the Audit Findings Report to the Audit Panel, There were minor disclosure errors that were amended by the management. The table below provides details of all the material misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

The Council has agreed to adjust the accounts for each of these.

Disclosure / misclassification	Disclosure amendment	Adjustment agreed?
Note 13C	Note 13c - Classification During our audit testing of Schroders - Pooled Property Investments, we found that the pension fund had erroneously included £2,823,361 in level 1 investments while it should have been classified as level 2. This issue has been communicated to the management and they have agreed to make amendments.	✓
Note 13C	During the audit of Level 1 investments, we have noted that all of the Pooled investments that were classified as level 1 were not liquid and not actively traded and because of the nature of being pooled and they were required to be classified under level 2, the pension fund amended the £967million of pooled investments from level 1 to level 2. This included investments at LCIV PEPPA, HarbourVest, Storebrand Global, Storebrand EM and Blackrock. This issue has been communicated to the management and they have agreed to make amendments.	✓

Grant Thornton

Auditor's Annual Report on London Borough of Lewisham Council

2022/23

November 2023

Contents

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. 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.

Executive summary

Value for money arrangements and key recommendation(s)

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2022/23 is the third year that we have reported our findings in this way. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Where we identify significant weaknesses in arrangements, we are required to make recommendations so that the Council may set out actions to make improvements. Our conclusions are summarised in the table below. Overall the Council has progressed recommendations from the prior year and these are responded to either, partially, or in full. The rating remains 'amber' for 2022/23 as the Council has made changes to its arrangements in year and therefore new improvement recommendations have been raised to aid the Council in ensuring these demonstrate best practice, we have continued to observe that arrangements are robust across all areas and have not identified weaknesses.

Criteria	2022/23 Risk assessment	2022/23 Auditor judgement on arrangements		2021/22 Auditor judgement on arrangements		Direction of travel
Financial sustainability	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷
Governance	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷
Improving economy, efficiency and effectiveness	No risks of significant weakness identified	A	No significant weaknesses in arrangements identified, but improvement recommendation made to support the Council in improving arrangements.	A	No significant weaknesses in arrangements identified. Improvement recommendations were made which have been responded to.	⟷

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

Executive summary (continued)

Financial sustainability

The financial environment with which the Council is operating continues to be challenging. The cost of living crisis and inflation continue to be pressures in the sector and the Council is experiencing increased demand on certain services, such as temporary accommodation, which is also impacted by high costs of private provision. Pressures continue to be felt in Adult and Childrens Social Care as complexity of needs increases, as well as costs from inflationary impacts.

These pressures caused the Council to initially produce an outturn position, against a breakeven budget, of £22m deficit. However due to the Council's approach to budget setting pre-determined contingencies that were set aside ahead of the financial year were able to reduce this to a £7m deficit. This has been managed via the unplanned use of reserves, and represents pressures such as pay and non-pay inflation over and above estimates included within contingencies. The Council has a comparatively strong reserves position, particularly against other London Boroughs, and as s temporary measure has been able to support this position without the need to negatively impact services or projects reserves were earmarked for.

The financial position has been impacted by under-delivery on the Council's savings programme. Savings have been rolled forward for several years in some cases and therefore our recommendations focus on the need to refresh the existing savings programme to ensure it remained realistic.

The Council has set a balanced budget for 23/24 which includes realistic assumptions based on known information at the time it was set. The budget monitoring process is effective in enabling the Council to update assumptions should risks emerge. The Council has also updated its Medium Term Financial Strategy in both 2023/24 and 2024/25 at the time of writing. Due to the review of assumptions as new information has emerged the Council has been able to significantly reduce its medium-term budget gap, this sits at £15m for 4 years from 2024/25 is manageable within the Council's reserves as a last resort. We are aware that Council is not planning to be reliant on reserves to balance the budget and is working with serviced to develop budget reductions and savings for future years to ensure their reserves remain available to sustain the Council longer term and support the projects they were set aside for.

Like many Council's with responsibilities for education service the Council is experiencing a cumulative deficit in relation to its Dedicated Schools Grant which funds pupil placements across all categories of education. The Council is developing a mitigation plan and working closely with the Department for Education to control costs and reduce the deficit. Cost drivers have been pinpointed to placements within the High Needs Block due to escalating complexity of cases and the requirement of additional resources to support these pupils. Linked to this subsection of pupils is the need for home to school transport which continues to be a pressure for the Council. Working to place students closer to home is included within the mitigation plan.

The Council declared a Climate Emergency in 2019 and has developed a strategy to respond to this by becoming carbon neutral by 2030. The Council has considered the early stages of this plan effectively within its current financial plans, and so understands the cost impact of its objectives to date. The strategy is long term in nature and so currently in its infancy, and therefore not currently fully costed. Progress is well monitored and positive to date.

Although we have raised some improvement recommendations in our work we have not identified any weaknesses in the Council's arrangements for securing financial sustainability.

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Executive summary (continued)

Governance

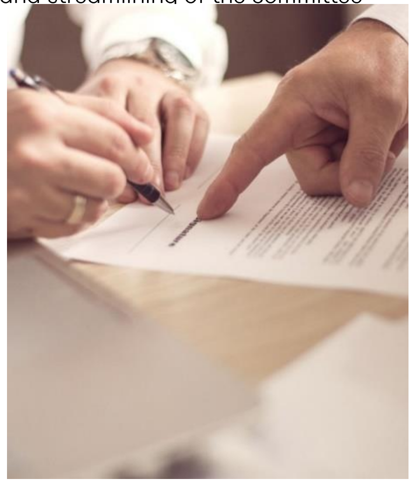
The Council reviewed and refreshed its Risk Management Strategy in 2022/23 and the Strategy, covering 2023-27. This has resulted in changes in how the Council identifies and monitors risks within its risk register. This has been implemented from quarter 4 of 2022/23 and is expected to evolve over 2023/24 as the process becomes embedded. Notably the Council has acquired bespoke risk management software to improve the information being captured and provided to decision makers.

The Council continues to be well supported by its Internal Audit function who completed 50 reviews in year, 19 of which related to 2021/22 and effectively cleared a backlog of reviews from the prior year. The Internal Audit Plan is heavily weighted towards assurances in relation to individual schools however, given a good track record of performance in this area, the Council may wish to ensure it gains assurance from a wider range of Council services. The function has experienced some capacity issues in 2022/23 that has resulted in 6 reviews being deferred. These will be carried out in 2023/24 and so no gaps in assurance have been identified. The Internal Audit function supported the prior year external assessment of its arrangements against required standards by undertaking a self-assessment during 2022/23. This confirmed that the service has addressed all of the small number of improvement matters noted in the 2021/22 external assessment.

In order to ensure standards are maintained, and action taken where this isn't the case, the Council continues to monitor complaints. It sets itself a target of responding within 10 days, it performing marginally outside of this expectation with most having been answered in 11 days. The Local Government and Social Care Ombudsman acts as a point of escalation for complainants not satisfied with the Council's remedy. The Council has received a letter from the Ombudsman in year with concerns around the timeliness of its response to its recommendations.

The Council has updated its Constitution in year, which underpins how decisions are made. The approved changes relate to a strengthening and streamlining of the committee structure. This has achieved efficiency whilst maintaining a strong governance culture.

Governance arrangements at the Council continue to be effective and minor improvements have been raised, no weaknesses were identified.



Executive summary (continued)

Improving economy, efficiency and effectiveness

The Council has fundamentally reviewed how it monitors its non-financial performance in 2022/23 by developing a centralised online dashboard for monitoring these metrics. This is made available publicly via the website in order ensure performance is transparent and easy to challenge. There is a clear link between the performance indicators being reported on and the Council's priorities within the Corporate Strategy and therefore means the Council are proactively monitoring the actions and targets that impact on their objectives. The information included in the dashboard is approved, and scrutinised, by members prior to publication publicly. The reliability of decisions that can be made based on this data depend on its accuracy and relevance. Currently there is a significant time-lag between the reporting date and the period the data relates so and this could be improved to aid decision makers.

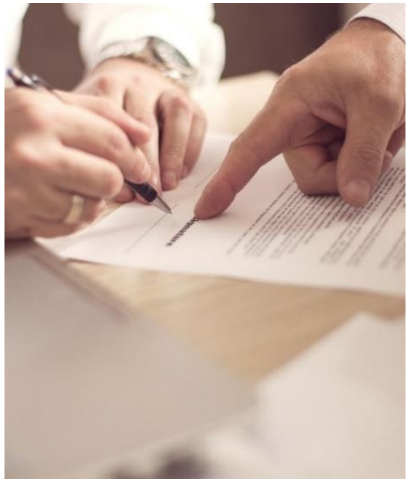
KPI reporting highlights that the Council is behind target in 18% of its metrics, the most significant variance is within the provision of homes. The Council is taking steps to positively impact this metric which includes bringing back Lewisham Homes, the Council's wholly owned subsidiary responsible for the maintaining and building of homes in the borough. The transfer began in 2022/23 and completed 1 October 2023. A phased approach has been taken to ensure lessons can be learned and applied via iterative improvements. As such there is evidence it has been well managed to date, although arrangements are yet to fully embed. The transfer aims to provide more control over the monitoring of housing related activity and therefore if activities are managed effectively there is the opportunity for the housing related metrics to improve. Given the timing of the transfer this has yet to take place.

The Council has received a 'no assurance' rated report from Internal Audit in the 2022/23 year which has found poor arrangements at all stages of the IT Asset Management process. The Council has taken immediate action, with many of the recommendations addressed between the draft and final report. The issues relate to a lack of documentation of arrangements and inconsistent application of controls. The IT physical asset portfolio at the Council is not significant in context of the estate and no such issues have been highlighted outside of IT specific assets. The rating was isolated and did not cause Internal Audit to modify their year end opinion of controls and process at the Council which remains a view of positive assurance.

Ofsted undertook a focused visit of Lewisham's Childrens Services and reported on these in 2021. This was a follow up from a 2019 inspection of the service which 'required improvement to be rated good'. The re-visit noted improved and strengthened services for children in care and noted 5 further improvements. The Council is expecting a full re-inspection imminently, and have taken extensive measures to prepare and respond to previous findings. A detailed self assessment suggests that the Council are confident that they are now providing good services to children, young people and families. Newly developed and implemented strategies to support improvements have been consistently monitored via the Corporate Parenting Board.

In its aim to increase the supply of affordable housing in the borough the council engaged Caledonian Modular Ltd (CML) in 2020 to build bespoke modular homes. Projects of this nature, with the same company, had been undertaken by other organisations in the public sector and although using modern methods of construction was riskier than a traditional approach members assess risks associated with the project and approved this following due diligence review of the company. The Company went into administration in March 2022 as a result of high inflation and sub-contractor issues and this has highlighted some improvements that could be made to the due diligence processes. Following a detailed options appraisal, including extensive cost analysis, it has been agreed that the project should be terminated and cost recovery maximized. This is the option with which the Council incurs the least financial loss. Due to the bespoke nature of the design cost recovery is proving challenging and as such we have made improvement recommendations that the Council may consider reviewing its procurement and contract management policies to strengthen how risks are considered in these processes and ensure lessons are learned from the outcome of this project.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by Council officers with whom we have engaged during the course of our review.



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Use of auditor's powers

We bring the following matters to your attention:

	2022/23
Statutory recommendations Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.	We did not make any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.
Public Interest Report Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of urgency, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.	We did not issue a public interest report.
Application to the Court Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.	We did not make an application to the Court.
Advisory notice Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority: • is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure, • is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or • is about to enter an item of account, the entry of which is unlawful.	We did not issue any advisory notices.
Judicial review Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.	We did not make an application for judicial review.

Securing economy, efficiency and effectiveness in the Council's use of resources

All councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under the Local Audit and Accountability Act 2014, we are required to be satisfied whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The National Audit Office's Auditor Guidance Note (AGN) 03, requires us to assess arrangements under three areas:

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Financial sustainability

Arrangements for ensuring the Council can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the Council makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the Council makes decisions based on appropriate information.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the Council delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Our commentary on the Council's arrangements in each of these three areas, is set out on pages 12 to 41.

In addition to our financial statements audit work, we perform a range of procedures to inform our value for money commentary:

- Review of Council, Cabinet and committee reports
- Regular meetings with senior officers
- Interviews with other members and management
- Attendance at Audit Committee
- Considering the work of internal audit
- Reviewing reports from third parties including Ofsted
- Reviewing the Council's Annual Governance Statement and other publications

The current LG landscape

National context

Local government in England continues to face significant challenges as a sector. These include a high level of uncertainty over future levels of government funding, alongside delays to the Government's plans for reform of the local government finance system, impacting on medium-term financial planning. This is also a time of generationally significant levels of inflation – the UK inflation rate was 7.8% in April 2022, rising to a 41-year high of 11.1% in October 2022, then reducing to 10.1% in March 2023. Inflation levels put pressure on councils' revenue and capital expenditure, as well as the associated cost of living crisis impacting on local communities and businesses, leading to an increase in demand for council services such as children with special education needs with associated transport costs, debt advice, housing needs, and mental health, as well as impacting on some areas of council income such as car parking and the collection rates of council tax, business rates and rents. This follows a significant period of funding reductions by Government (2012 to 2017) and the impacts of Brexit and the COVID-19 pandemic which, for example, have contributed to workforce shortages in a number of council service areas, as well creating supply chain fragility risks.

The Government announced the Provisional Local Government Finance Settlement for 2023/24 in December 2022, with the Final Settlement confirmed in February 2023. The Settlement distributes a range of grants and business rate income allocations to local authorities, and these should be included in the annual budget. The Final Settlement for 2023/24 distributed £17.1bn of funding to local authorities, a 4.8% increase in cash terms from 2022/23. The Settlement also provides the Core Spending Power for local authorities, which is the level of resources assumed available to fund the net budget. Core Spending Power includes the levels of government grant for the coming year, for example revenue support grant, new homes bonus and social care grants. It also includes assumed levels of business rate income.

Core Spending Power includes the assumption that local authorities will increase council tax up to the referendum limit, which for 2023/24 is 3% plus an additional 2% for upper tier authorities who provide adult social care services. District Councils can increase council tax by £5 or 3%, whichever is higher.

The Government will undertake Spending Reviews that set out government departmental budgets over a period of 3 years, including local government. These reviews are different to, but inform, the annual Local Government Finance Settlement.

The local government finance settlement for 2023/24 was better than many in the sector anticipated demonstrating an understanding by Government of the financial challenges being faced by the sector. However, the Local Government Association, in July 2023, estimated that the costs to councils of delivering their services will exceed their core funding by £2bn in 2023/24 and by £900m in 2024/25. This includes underlying cost pressures that pre-date and have been increased by the pandemic, such as demographic pressures increasing the demand for services such as social care and homelessness.

Over the past decade many councils have sought to increase commercial activity as a way to generate new sources of income which has increased the nature of financial risk, as well as the need to ensure there is appropriate skills and capacity in place to manage such activities.

Local government is coming under an increased spotlight in terms of how the sector responds to these external challenges, including the Government establishing the Office for Local Government (Oflog) and there has been an increase in the number of councils who have laid a Section 114 Notice, or are commenting on the likelihood of such an action, as well as continued Government intervention at a number of councils.

There has also been an increase in the use of auditors using their statutory powers, such as public interest reporting and statutory recommendations. The use of such auditor powers typically derive from Value for Money audit work, where weaknesses in arrangements have been identified. These include:

- a failure to understand and manage the risks associated with commercial investments and council owned companies
- a failure to address and resolve relationship difficulties between senior officers and members
- significant challenges associated with financial capability and capacity
- a lack of compliance with procurement and contract management processes and procedures
- ineffective leadership and decision-making.

Value for Money audit has an important role in providing assurance and supporting improvement in the sector.

The current LG landscape

National context

Cost of Living Crisis

The rising costs of fuel, food and other essentials are combining with existing disadvantage and vulnerability and putting many households at greater risk of both immediate hardship and reduced opportunity and wellbeing.

Councils and local partners continue to do what they can to protect people against higher costs, targeting help at those facing the most complex challenges.

Councils' range of front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience.

The dramatic increase in inflation alongside increases to the National Living Wage, have added £2.4 billion in extra costs onto the budgets of Councils in 2022/23. In 2023/24 Councils are facing a funding gap of 3.4 billion, with a funding gap of £4.5 billion the following year.

To support its most vulnerable residents through the cost-of-living crisis, Councils face additional cost-pressures which will need to be addressed to avoid further cuts to vital frontline services.

Housing

Local Authorities work closely with registered providers for social housing to deliver England's social housing supply. Their work is regulated by the Regulator of Social Housing, using value for money as a key regulatory standard.

The housing sector faces significant economic challenge. In 2022, the Regulator estimated that half of housing providers' headline costs related to major repairs. Where Local Authorities have borrowed to finance housing, the margin for paying rising interest rates and setting aside repayment funds is becoming more difficult to achieve.

Managing trade-offs is difficult. Members need to have a clear understanding of their organization's performance, and decisions need to be transparent for stakeholders. Local Authorities need to get the best out of the resources they have available for delivering safe, well-maintained homes. This means using effective procurement and contract management arrangements; adopting rolling plans of service reviews, supported by strong performance indicator reporting; recruiting and retaining staff with the right skills; and maintaining physical control over assets.

Carbon reduction

The UK government has a target of 100% reduction in 1990 greenhouse gas emissions by 2050. Many of the carbon budgets set by the government are relevant to Local Authorities. By June 2022, more than 250 English Local Authorities in England had declared Climate Change Emergencies and set carbon reduction targets of their own.

To deliver value for money whilst also implementing carbon reduction, Local Authorities need strong processes. Carbon reduction costs need to be reflected within medium-term financial plans; funding needs to be consistent with other strategic priorities; costs need to be accurately recorded and monitored; and the relative costs of acting versus not acting need to be evaluated on an ongoing basis.

Climate change is often already reflected on Local Authority risk registers and where Local Authorities set themselves strategic goals around carbon reduction, effective processes for monitoring progress against those goals is needed. Training should be kept up to date both for executives and for members overseeing climate change and carbon reduction risk and performance. As legal requirements are evolving and new sources of funding and grants continue to come forward, horizon scanning for new duties and opportunities will also need to be vigilant.

The current LG landscape

National context

Dedicated Schools Grant Deficits

On 12th December 2022, the UK Government announced that it would be extending statutory override for the Dedicated Schools Grant (DSG) in England for the next 3 years, from 2023-24 to 2025-26. By the time this period elapses, the statutory override will have been in place for six years.

Recent estimates put the total national deficit for local authorities in tens of billions by March 2023. Whilst statutory override remains in place, there is no requirement to make provision from general reserves for repaying the deficit. Reforms and savings targets have been agreed with those local authorities with the biggest deficits. However, all local authorities need to focus on managing (and reducing) their deficits – because how these will crystalize as liabilities in 2026 is not clear.

Within DSG, the High Needs Block has proved particularly problematic. The Block is there to support children with special educational needs (SEN), which means providing more teaching staff and resources. However, there is often a significant gap between funding granted per child and the actual cost of the teaching and other resources needed.

Every parent has the right to apply for support for their child. An expensive appeal process also exists. There are significant regional differences in numbers of plans granted by local authorities and cost management on those plans once they are granted. Managing (and reducing) the growing DSG deficits that arise as a result will be a challenge both for financial sustainability and for maintaining the overall quality and effectiveness of service provision.

Children and Young People - Social Care

Single tier councils and county councils spent £12.2 billion in 2021/22 and have increased their budget to £12.7 billion in 2023/24 as demand for children's social care services have increased.

Councils have a statutory duty to safeguard and promote the welfare of children at risk. A range of services can be provided including support to families as well as keeping children safe from harm and providing services for those children who are 'looked after' by the council.

In recent years there has been an increase in demand with an increase in the number of child protection places and looked after children, as well as an increase in complexity of the needs of the children.

The increase in demand and complexity has resulted in an increase in the cost of individual residential placements which are often not local and outside the Council's geographical locality as well as private and agency foster carers.

Many councils have failed to model and anticipate the increase in demand and as a result lack sufficient local quality provision and are now actively trying to meet this challenge.

Workforce

Local government faces multiple workforce challenges including skill shortage in areas like social work and planning and the lessening attractiveness of local government as a career choice when staff can be paid more for less stressful work in other sectors.

The need for future workforce planning to ensure the Council has the appropriate staff, with the right skills, at the right time to deliver sustainable council services is therefore clear.

To achieve this aim, councils need to develop a workforce plan or strategy which not only sets out aims and aspirations but also a roadmap with numerical targets against which outcomes can be measured and assessed

The workforce strategy needs to be clearly linked with strategic objectives and financial planning.

Without a corporate workforce plan, Councils cannot take a strategic view of how the needs of the council in terms of human resources will develop over the medium term and appropriate development through training and recruitment may not be undertaken

Financial sustainability

We considered how the Council:

- identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds them into its plans
- plans to bridge its funding gaps and identify achievable savings
- plans its finances to support the sustainable delivery of services in accordance with strategic and statutory priorities
- ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system
- identifies and manages risk to financial resilience, such as unplanned changes in demand and assumptions underlying its plans.

2022/23 Financial Performance

Members approved the 22/23 budget and medium-term financial plan (MTFP) in February 2022. For 2022/23, in line with legislation, the Council set a balanced budget which was made up of a General Fund budget expenditure requirement of £248.610m matched with funding from a variety of expected sources. Our work in the prior year confirmed this position was affordable.

The forecast outturn position is monitored by the Finance Team and reported to members via Mayor and Cabinet quarterly. The year end outturn position was initially an overspend of £22m against the net general fund revenue budget. The Council sets aside a series of provisions within each budget as contingency to fund unexpected costs. These provisions, alongside legacy Covid-19 grant funding, were utilised to minimse the use of the Council's reserves by reducing the remaining deficit to £7m. This £7m deficit was then funded from the Council's General Fund and earmarked reserves and represents pressures in excess of estimates initially made and included within contingencies within the budget.

The drivers of the deficit position include higher than expected energy costs and pay award, which were estimated at the time the budget was set, for which specific contingencies were set aside and so could be mitigated. The most significant remaining pressures which were funded from reserves, or offset by overspends in other services, relate to childrens' social care, education services and strategic housing which are all demand led services and common sources of pressure across the sector, as such not evidence of a lack of control specifically attributable to the Council. These services have also felt pressure from pay and non-pay inflation leading to the overspends, as well as demand factors. We have noted extensive actions being taken to respond to the issues within education (3E's section) and childrens' social care (Finance – Savings section). The strategic housing pressure is a result of increasing demand for temporary accommodation, with demand outweighing supply the Council are being forced to fund expensive private provision to meet its statutory duties. The service is actively seeking to reduce numbers accommodated and is set to embark on the purchase of up to 300 new units for this type of accommodation following the award of Greater London Authority (RTB) grant and Mayor and Cabinet approval. This will potentially reduce the numbers accommodated in expensive nightly paid accommodation. This seeks to address both the cost and supply challenges associated with the service but does not impact demand.

Increasing demand for homelessness related services, such as temporary accommodation, is increasing across the sector and therefore the Council may benefit from learning from other organisations who have also successfully responded to the demand side challenge via prevention strategies. Examples of Early Intervention Services have been identified at other Council's which include within their remit research into homelessness and community based officers working with people at risk of homelessness before this occurs. (Recommendation 1).

20234/24 Budget and Assumptions

The Council approved its 2023/24 budget at the Council meeting held on 1 March 2023, ahead of the 23/24 financial year. The Council's spending power is predominantly determined by the Local Government Settlement, made up of a business rates baseline funding figure and revenue support grant (RSG), which is announced annually and provides funding to the Council on a one-year basis. the provisional settlement for 23/24 was published on 19 December 22 with the final settlement announced 6 February 23. As such the MTFP and budget was based on the provisional figures. The Council's quarterly budget monitoring does allow for revisions to the budget should significant new information become available and no changes were made in the final settlement affecting the Council's budget.

The Council set a balanced budget for 23/24 which matched net expenditure of £263.7m (£248.6m in 2022/23) matched to available funding. The Council's Medium-Term Financial Strategy and 23/24 budget continues to rely on 3 key sources of funding, in addition to the Local Government Settlement, common place across Councils - council tax, retained business rates in addition to the baseline and government grants.

The Council continues to use a roll forward approach when setting its budget each year, using the prior year as a starting point. In the prior year there was uncertainty, in particular, around expenditure assumptions such as energy costs, pay costs as a result of the pay award and non-pay inflation and the Council set aside contingency to fund these should these costs arise in excess of the pressures already funded within the budget. As noted the Council made use of these contingencies and therefore we would expect these assumptions to be reviewed again within the 23/24 budget to ensure they remain realistic.

Financial sustainability (continued)

Key assumptions in relation to sources of income have been reviewed as part of the budget and do remain realistic, grants income is determined by government allocation notifications and therefore no estimates or assumptions are required in 23/24. The council tax threshold has been set at the maximum allowable before a referendum is triggered of 4.99% (including the social care precept) in order to maximise this stable form of income, demonstrating positive budget management. The revenue that the Council can rely on from this source is also dependent on collection rates. The Council has assumed within the budget that collection rates will be 94% but sets itself a target above this of 96% to encourage stretch and maximise the benefit to the Council's overall budget. This accounts for and adjusts the budget for optimism bias and demonstrates strong budgetary control. The 22/23 outturn confirms that 92.8% of council tax due had been collected compared to the 95% assumption for 22/23. This does suggest that a reduction in the assumption for 23/24 was appropriate based on the information available at the time of setting the budget, and also accounts for the emerging risks associated with current high levels of inflation and cost of living crisis that impact collection rates.

Reforms in the Business rates system were expected to be imminent, originally planned for 2020, but have been delayed over recent years. The reset of the business rates system was not addressed as part of this Spending Review for 2023/24 (which also provided information for 24/25). However, Government has reaffirmed its commitment to do this in the next Parliament. The Council has assumed that the Business Rates Retention (BRR) consultations will be announced in 2025/26 at the earliest and so has retained current assumptions for 23/24 and 24/25. The risk of a redistribution of business rates away from the Council still exists but with no information as to the changes under the reforms it is appropriate to assume no further growth after 2024/25 within the MTFS. The risk has been recognised within the budget documentation and so can be monitored as it emerges through the budget monitoring process in year and budget setting process annually.

The Council also generates income from fees and charges, each charge has been reviewed and clear rationale provided for each. Services are expected to increase fees in line with inflation and this is, again, demonstrative of maximising a key revenue stream and robust financial management in respect of income. Where a general inflation figure is being used the Council assumes in the region of 10% which is in line with CPI inflation rates between September 22 and March 23 when the budget setting process was taking place. Inflation has begun to reduce in 23/24 (6.7% in August 23) however this is not evidence over over-prudence in the assumptions as the estimate was based on the available information at the time. In addition the Council tends to use specific inflation rates for individual fees and charges based on the cost drivers of each service, as opposed to a general rate, there assumptions are related to the nature of each service and can be considered realistic. There is the caveat that increases in charges can lead to reductions in demand or usage but the budget monitoring has not identified significant pressures coming from services which attract fees and charges.

In relation to expenditure assumptions, at the point of updating the MTFS in July 2022, the Council assumed increases of 3% for the pay award and 2.5% for non-pay inflation for 2023/24.

The Council uses the budget setting process to update assumptions as new information becomes available and this led to a revision of the inflation assumption uplifted by approximately 5%, from the initial assumptions.

Following a period of rising inflation in 2022/23 inflation has begun to decrease from a high of 10.5% in December 2022 to 6.7% in August 2023. The Bank of England expects inflation to be at 5% by the end of 2023 and keep falling towards the target of 2% in 2024. Therefore, although the initial estimate seemed optimistic, the forecasts render the assumption appropriate within the year and demonstrate the forward looking nature of the budget.

Regarding assumptions in relation to the pay award for the 2023/24 budget in February 2023, the national employers made a "full and final" 3.5% offer to council chiefs on their basic salary for 2023/24, this was less than the 3.88% being requested. Council staff generally have been offered a pay rise of at least £1,925 for 2023/24, equating to between 3.88% and 9.42% depending on their pay grade and this has been reflected in the budget and therefore the assumption appropriately accounts for differences due to pay grades.

Budget Risk

The budget is structured around:

- Budget assumptions, including: Budget Reductions, Council Tax, and Inflation;

- Budget pressures to be funded; and

- Risks and other potential budget pressures to be managed

Budget reduction for 2023/24 relate to the £20.3m of savings required to balance the budget (including prior year savings). Budget pressures are those risks that the Council has been able to identify, quantify and fully fund within the balanced budget position set, these total £43.8m for 2023/24. The most significant risks identified are salary inflation (£7m), short fall in salary inflation for 22/23 (£4m) and non-pay Inflation (£5m) where we have determined that the assumptions are realistic and therefore supports that these are funded at an appropriate amount.

The budget also includes consideration of risks which have not been funded, due to insufficient funding to do so, and/or are difficult to quantify with any certainty. Officers continue to undertake work to fully assess and monitor these risks, have contingency included within the budget to respond as they emerge and have sufficient reserves (see Reserves section). The risks identified are in line with sector wide risks that apply to Lewisham. Emerging pressures noted from the 2022/23 outturn and 2023/24 budget monitoring to date are childrens' social care and temporary accommodation within the strategic housing service, the Council are also in the process of bringing Lewisham Homes Ltd services back in house.

Financial sustainability (continued)

We would suggest each of these areas carry potential unanticipated costs and therefore are additional risks to the budget. The Council should therefore continue to keep risks under review to ensure completeness of risks being considered, and mitigated, incorporating these emerging areas into financial plans as they arise (Recommendation 2).

Regular engagement has occurred between the S151 Officer, Executive Management Team and the Senior Leadership Team regarding the level of financial risk across the Council and the importance stressed of everyone being accountable to deliver effective services within the financial envelope available. Financial risks have also been clearly communicated to members via an all member away day in October 2022, with two lunchtime roundtable sessions in January 23 and via an all member briefing in January 2023. As such we are satisfied that risks to the budget are clearly understood by decision makers.

MTFS

The 2023/24 Medium Term Financial Strategy (MTFS) that was reviewed by Mayor and Cabinet in July 2022 and identified a £9.9m gap in 2023/24 and a £25.9m gap between 2024/25 and 2026/27, including approved savings already identified. The Council has focused the period between July 22 and March 23 on balancing the 23/24 budget, successfully, via identification of a series of budget reductions approved by members. It has recently begun to review and update the 2024/25 MTFS based on the emerging financial position in its commitment to reduce the medium term budget gap. These efforts have been fruitful and there has been a significant reduction in the gap which now stands at £15.3m for the total MTFS. The main improvements are a result of assumed increased income from council tax and business rates. The 23/24 council tax guidance also covers 24/25 and the assumptions have appropriately been updated to reflect this. The Council have assumed increased collectability rates, compared to 23/24 assumptions (96% in the first 3 years of the MTFS and 97% in the final year). High inflation is reducing in the 2023/24 year to date and therefore it is sensible to assume that collection rates will increase in the medium term as the two are inextricably linked. At month 4 of 2023/24 collection is 1.3% adrift of the targeted level, although inflation has recently begun to reduce and a lag is expected before this impacts residents individual spending power. The Council is drawing on experience and best practice of high performing councils to ensure that our performance can improve to those levels forecast.

Business rates retention and top up assumptions have been updated based on the 2023/24 actuals which were not known at the time of setting the prior year MTFS, these figures used to estimate future years to ensure that the assumptions remain robust. The Council continues to assume contribution to collection fund deficits due to collectability being impacted by pandemic recovery, crucially in the final year of the updated MTFS this assumption ceases. We believe this to be appropriate as this would be 8 years post pandemic which is seen as sufficient time for recovery to take place.

For the 2024/25 MTFS the base case model indicates a balanced budget for 2024/25 and therefore a budget reduction process, required in the prior year, is not required and therefore the Council are able to focus on the medium term years of the MTFS alongside refining the 24/25 budget by undertaking a targeted internal budget process focusing on high volume / high value services, including benchmarking activity data to review current levels of expenditure to ensure that the 2023/24 budget can be stabilised and remain balanced in 2024/25. This is a more positive outlook than at the same time in the prior year and afford the Council time to develop robust plans to address the medium term gap.

DSG

The Council's expenditure on schools is funded primarily by the Dedicated Schools' Grant (DSG) provided by the Department for Education (DfE). The DSG is ring-fenced and can only be used to meet expenditure as defined in the School Finance (England) Regulations 2011. The ringfenced status was introduced in 2020 by statutory override and means the DSG deficits are separated from the wider finances, therefore the Council does not need to use its own usable reserves to cover the DSG deficits. The statutory override was due to end at the end of 2022/23 but has recently been extended. The extension of the override expected to remain for a further 3 year period, but is not permanent. After this point there is a strong possibility that the ringfenced status could cease. This would provide wider challenges for the Council's overall financial position in the latter years of the MTFP as the deficit would then need to be met from the Council's base budget and/or its usable reserves. It should be noted that Lewisham is not alone in this challenge, however it is imperative that the Council plan ahead for this issue in the medium term planning process.

At the end of 2022/23 the Council had a cumulative deficit of £13.1m against, and the latest forecast position for 2023/24 to date demonstrates a continued pressure with £5m further deficit forecast for the year.

	£'000	£'000	£'000	£'000
	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23
DSG In Year Deficit	551	2,375	6,491	4,225
Cumulative Deficit (Unusable Reserve Position)	0	2,375	8,866	13,091

Financial sustainability (continued)

The grant is constituted of four parts, the Schools Block, Central Services Schools Block (CSSB), High Needs Block (HNB), and the Early Years Block (EYB). The deficit and pressure is almost entirely as a result of overspends in the High Needs Block which funds Special Education Needs and Disability (SEND) pupils in special schools and units. The issue is being caused by an increase both in demand and inflationary pressures, these pupils also require home to school transport which is an added pressure within the Education Service.

The Council is already taking extensive actions to respond to the emerging challenge which include:

- liaising with the Children and Young People directorate, Schools Forum and Head Teacher and Officer Working Group to develop a detailed mitigation plan,
- continually liaising with Schools Forum and DfE to secure one-off funding,
- increasing capacity and places at several schools,
- ensuring the dedicated Schools Finance Team continue to implement Deficit Prevention Plans which enable schools to work effectively towards a 3-year balanced budget position
- Working effectively with the DfE to support those schools from the DfE funded School Resources Management Advisers Programme (SRMA) initiative. In 2022/23, 6 schools were supported as part of this initiative with a further 5 schools planned over the next 6 months

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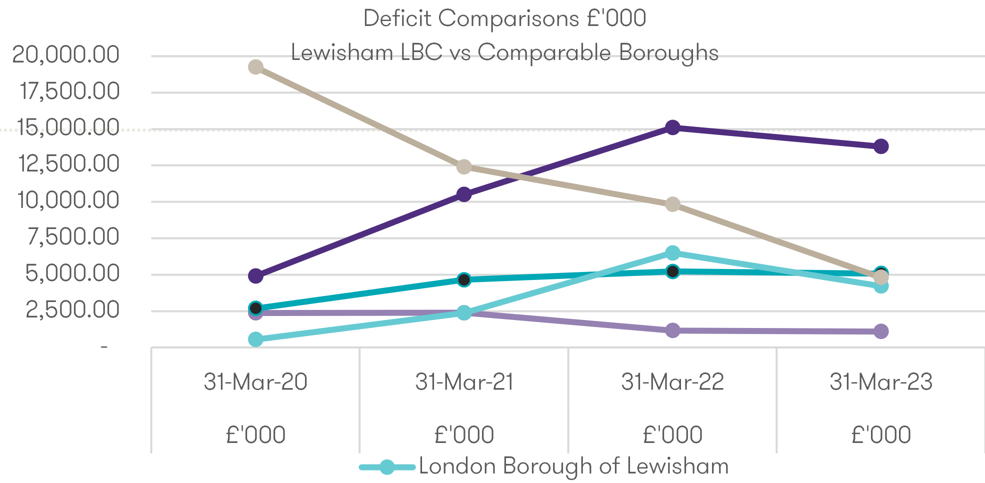
DfE has developed two initiatives to assist a number of Council's in tackling their DSG deficits. The Council is part of the Delivering Better Value Initiative which commenced in the summer of 2023 and will further support the current mitigation strategy, it is expected this will also positively impact the overspends in education services related to home to school transport by placing students closer to home. The initiative supports 55 Councils and has 3 tranches prioritised based on size of the deficit, Lewisham is in the third tranche. Council's with the largest deficits are part of more enhanced initiatives including "safety valve" for which Lewisham does not qualify.

The year on year DSG deficit has remained relatively stable at the Council and is therefore not indicative of a significant lack of budgetary control, rather the impact of demand (£6.5m, £4.2m and £5m in 21/22-23/24 to date). When comparing Lewisham to 5 similar London Boroughs they also perform comparatively with regards to the year on year deficit figures, being the 2nd lowest deficit of the sample in 22/23. Comparative performance and the range of extensive actions being taken far ahead of the expected changes to the statutory override suggest that the Council has effective arrangements in place, currently, to respond to the risk.



Savings

In 2022/23, there were £25.8m of savings to be delivered included in the budget in order to breakeven, including £5.6m as yet undelivered from 2020/21, £8.4m undelivered from 2021/22 and £11.8m new savings for 2022/23. Due to the fact that savings are continually rolled forwards into each year's budget, with many undelivered for several years, the Council should would benefit from a wholesale refresh of the savings programme as part of the 2024/25 budget process to ensure the programme is realistic in its delivery expectation and based on the current operational environment. Given the track record of under-delivery against target it may be useful to include explicit optimism bias adjustment when developing a new savings programme to ensure it is realistic in its requirements (Recommendation 3)

At the end of 2022/23, £7.6m of savings remained undelivered, £6m of which were from prior years and £0.2m were written off as undeliverable. This has contributed to the £7m deficit position at year end that required the unplanned use of reserves. Two directorates account for the majority of the under-delivery, Children and Young People and Community Services, driven by pressures specifically in Childrens Social Care and Adult Social Care which is consistent with the prior year and the sector as a whole.

The 2023/24 budget requires savings, from budget reductions and income generation, of £12.8m to be delivered, in addition to undelivered savings from prior years carried forwards, giving a total of £20.3m savings required to breakeven. At month 4 of 2023/24 a similar challenging picture is apparent, with only £16m of savings expected to be delivered by year end due to continual challenges in Childrens Social Care.

Financial sustainability (continued)

The majority of prior year savings have been addressed with the exception of £2.5m, which again is within Childrens Social Care.

The Council has a detailed understanding of the causal factors associated with the pressures in Childrens Social Care and undertook a deep dive into the challenges, which was presented to members via the Public Accounts Select Committee in March 23, with supporting analysis. This information is useful to help members and officers in understanding the drivers of cost and demand, but to maximise the benefit of this work the Council should seek to develop a detailed action plan which is monitored with the support of service heads and members (Recommendation 4).

The report confirms that historically the pressures have been due to increasing demand, with rising numbers of referrals to the service. The Council have been working towards more intervention and support strategies to reduce the number of looked after children. To date actions have had a positive impact on reducing demand with a 6.3% reduction in the number of looked after children being supported by the Council at March 23 compared to the prior year, this has been maintained in 2023/24. However the Council has observed that despite the numbers reducing the complexity of the needs of the children in placements is increasing which carry a higher unit cost due to ratios of staff required. The Council is continuing to seek cost reductions via improved commissioning work with the PAN London Commissioning Alliance to secure more favourable rates, creating alternative capacity through in house provision, setting a 3-4 month target on finding alternative placements for those in high cost care (targeting local placements and extended family) and seeking to secure funding from partner organisations. These are all positive steps that are expected to take some time to embed, however there is commitment to a long term improvement journey in this service.

The deep dive approach to investigating the causal factors of the pressures in Childrens Social Care has been effective in clearly identifying where the Council should target its actions to address continued overspend and savings under-delivery. In 2022/23 and 2023/24 to date the Council has also experience significant overspends in Adults Social Care, Education Services and Strategic Housing and therefore may benefit from a similar investigative report, and supporting action plan, to address pressures in these services too (Recommendation 4).

Following on from the update of the 2024/25 MTFS work will now be focused on identifying at least £20m of savings for the period 2025/26 – 2027/28, as 2024/25 is currently a balanced budget. The level of savings targeted is greater than the forecast budget gap of £15m to enable robust option appraisal to take place by services and members, as well as providing a contingency of savings that could be mobilised should selected schemes not deliver as expected. This is a positive risk mitigation strategy and a direct response to the savings challenges being experienced.

The process of savings identification going forwards is being amended and will be a targeted approach to developing savings from strategic service changes over more than one year rather than one off non-recurrent savings or setting a fixed percentage target which can place pressure on future years' financial planning as they do not have a multi-year benefit.

This demonstrates an improved process in terms of savings that has not been present in the setting of the 2023/24 budget or prior years.

Reserves

The Council was able to develop a 2022/23 breakeven budget position without the use of its general fund and earmarked reserves, due to its approach of setting aside provisions and corporate budgets for specific risks identified in the budget setting process. The initial 2022/23 outturn was a £22m deficit position but the use of these contingencies reduced this to £7m which was an unplanned call on reserves.

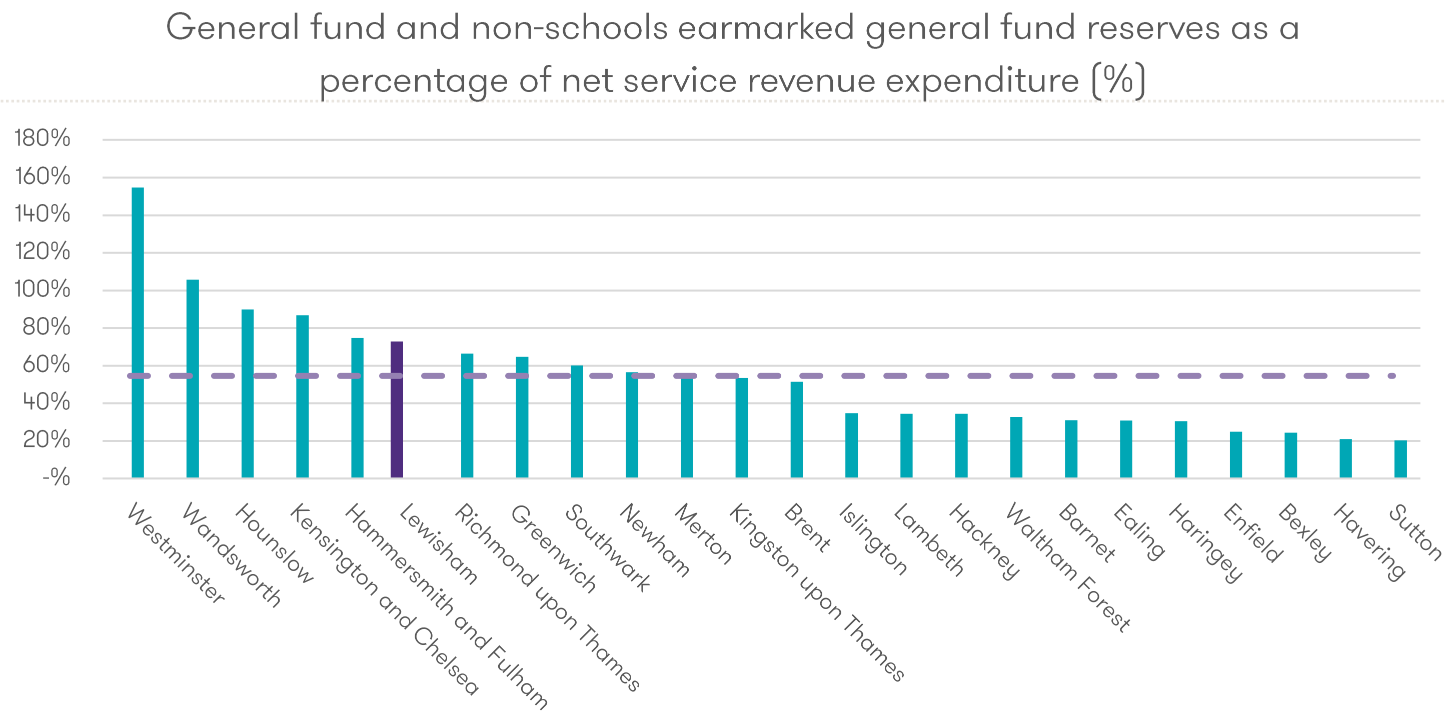
At the end of 2022/23 the Council held £20m of un-earmarked general fund reserves and £78.5m of specific earmarked reserves, set aside to fund initiatives, projects and to manage risks to the organisation, This is the position following the unplanned use to fund the outturn deficit position.

The Council, has once again, set a balanced budget for 2023/24 without the planned use of these general fund and earmarked reserves which demonstrates its commitment to protecting its reserves to support the future sustainability of the Council and enable it to fulfil its objectives. This has been achieved via identifying £20.3m of savings to be achieved, £43.8m of quantifiable risks funded via available resources in the budget and £26.3m of corporate provisions set aside for emerging risks. £10m of these provisions have already been committed to fund the emerging 2023/24 deficit at month 4, reducing the forecast deficit to £13.5m, Should this position remain stable the Council has sufficient contingency in place to support this. This is dependent on the current forecast of £16m savings being achieved, should this not be successful then the Council would need to use its earmarked reserves to fund any resulting deficit. In addition the MTFS includes a medium term budget gap of £15m, which unless mitigated in full by the impending savings identification process could also need to be funded from reserves as a last resort.

The Council has sufficient reserves, as a temporary measure, to support both the emerging outturn position for 2023/24 and the MTFS gap. However this would divert these resources away from the specific purposes they were set aside for, they continue to be a finite resource which once used need to be replenished to support the future aspirations of the Council. Finance regularly communicate with members on the importance of protecting reserves for unplanned usage and the approved budget and MTFS reflects this commitment.

Each year when setting the budget the S151 Officer is required to make a statement confirming whether the reserves of the Council are adequate, the statement for 2023/24 budget and MTFS is positive in this confirmation.

Financial sustainability (continued)



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The strength of reserves is evidenced via benchmarking against other London Boroughs which compares all usable reserves (including sinking funds, capital reserves, insurance and ringfenced reserves which are not as flexible/liquid by their nature but are considered usable in the accounts). This demonstrates a comparatively strong position with the Council being rated 6th out of 24 Councils. The robustness is further supported by a Grant Thornton paper entitled 'Lessons from recent Public Interest reports' which includes a strong emphasis on the importance of maintaining an adequate level of reserves. There is no formal definition as to what constitutes adequate, but Grant Thornton's view is that reserves should be a minimum of 5% of net spending and preferably be somewhere between 5% and 10%. £98.5m of earmarked and un-earmarked reserves is 37% of the 2023/24 budget and therefore the Council is above the threshold and therefore has sufficient headroom to support the medium term position forecast.

Financial sustainability (continued)

Environmental Considerations

In 2019, the UK Government passed legislation to bring all greenhouse gas emissions to Net Zero by 2050. This was to align with the commitments in the Paris Agreement to limit global warming to 1.5 degrees. The Council declared a Climate Emergency in 2019 and pledged to be Carbon Neutral by 2030 in response to this legislation. A Climate Emergency Action Plan was approved by Mayor and Cabinet on 11 March 2020, which sets out how the Council plans to achieve this pledge, and implemented with immediate effect. Since then, the Council has also signed up to the UK100 "Net Zero Local Leadership Pledge", alongside over 40 other local leaders, to reach zero carbon before national government.

Although the priorities within the strategy would be considered operational they will ultimately have a financial impact on the Council and therefore we would expect these to be effectively planned for in the budget and medium term planning so the Council is clear that these are affordable. Within the 2023/24 budget there is consideration of climate change and environmental implications, particularly in agreeing budget reductions, although this resulted in limited changes to the budget. There is specific budget set aside allocated to the Cleaner and Greener Corporate Priority of £1.650m for 2023/24 specifically to support the Council's commitment to be carbon neutral by 2030. It includes investment in waste services, emissions based controlled parking and fly tipping. As such the Council has adequately considered the financial impact of what are relatively new initiatives when rolling forward prior year budgets. The same considerations were taken when developing the 2022/23 budget and the outturn reporting does not evidence any financial deficits resulting from climate change specific issues, as such the initiatives to date are not a source of financial pressure to the Council and are being managed within the available budget,

With the aim of limiting the financial burden to the Council it has developed a scheme which aims to share the cost of climate change with the community via the first Lewisham Climate Action Investment. This aims to raise £1m in order to boost investment in projects which help reduce carbon emissions and tackle the Climate Emergency. The scheme is a type of Community Municipal Investment – an investment model which allows residents to invest their money in projects that benefit the local community and receive a return on their investment. The minimum investment is £5 and investors can earn a return of 4.3% interest a year, fixed for the whole five year term. At August 2023 £659,957 has been funded from 612 investors compared to the £1m aim and therefore does show a positive uptake from residents. The investment scheme is managed by Abundance Investment, who have supported other councils with similar initiatives, and so ensures that the Council is supported in a new venture such as this. The money raised will be used to finance projects aimed at increasing the use of sustainable transport and therefore has a specific purpose and aim.

The 143 actions in the March 2020 Action Plan are divided across 5 themes - Leading by Example; Sustainable Housing; Decarbonised Transport; Greener Adaptive Lewisham; Inspiring, Learning and Lobbying. Progress on the action plan is reviewed annually by Executive Management Team and through scrutiny committee process including reporting annually to the Mayor and Cabinet on progress. A public update is published once a year setting out what has been done in that year and updating a clear set of actions going forward. Detailed commentary is provided to aid decision makers in judging whether stage of completion is sufficient and each is assessed as either: 'Achieved', 'Not Achieved' or 'Ongoing' as well as being RAG rated. 66% are 'Achieved' and 71% 'Green' rated at the end of 2022/23 which is deemed to be positive performance to date.

Alongside reporting on progress against this plan the Council also produces annual carbon emissions reports on the current level and source of carbon emissions to monitor this. It is noted that these currently show council-wide only emissions, with the ambition to ultimately report on borough-wide emissions as well and therefore demonstrate a commitment to tackling climate change on a wider scale. This alongside membership of UK100 "Net Zero Local Leadership Pledge offers future opportunities to work with partner to impact climate change on a larger scale than Lewisham.

The Council's Corporate Plan 2022-26 identifies the climate emergency, formalising this as a council priority, the Council's budget, KPI monitoring and risk management are all centred around achieving these priorities and so this does put climate change at the forefront of the Council's objectives.

In 2022/23 Internal Audit undertook a review on the Council's Air Quality Action Plan 2022-27 with the aim is to assess whether the Council had appropriate arrangements in place to monitor, report and deliver the plan. The review was given Limited Assurance rating reporting that air quality monitoring data is incorrectly or inadequately reported to senior management and members for action. 9 actions were classed as important and 3 as routine. All were agreed in principle at the exit meeting in April 2023. Although this rating is behind where the Council would wish to be this is one element of a much larger climate change strategy and so is not indicative of failing in said strategy.

Overall, due to the comprehensive actions in place, the Council has adequate arrangements to ensure that it monitors and complies with any legislative changes relating to climate change/net zero.

Financial governance

Budget Setting and Monitoring

The approach to setting the budget has remained largely consistent with the prior year. The process began immediately following the 2022/23 year end with the update to the Medium Term Financial Strategy, informed by the outturn position, presented to members for scrutiny in June 2022. As quarterly budget monitoring continued, and informed all stages of the budget, the Council developed its proposed budget reductions for 2023/24 in December 2022, with the aim of producing a balanced budget and reducing the medium term financial gap within the updated MTFS. These proposals, plus the provisional Local Government Settlement were used to develop the draft budget for 2023/24, this was finalised and recommended for approval by Mayor and Cabinet 8 February 23 before approval by Full Council 1 March 2023. It is clear that the process follows multiple stages and there is the opportunity for input and challenge at each stage from members via multiple committees (including scrutiny), officers, service users and directorates at each stage.

As the Council uses the 'roll forward' approach to budget setting the budget assumptions are initially based on those made in the prior year, which are then reviewed to ensure they remain relevant or updated for new trends/changes present within the organisation (i.e. reducing business rate core team) or external factors (i.e. cost of living crisis or rising inflation). Where relevant trends are used to determine key assumptions. The quarterly budget monitoring process then provides the opportunity to update these assumptions should this be required as new information becomes available.

As required under the CIPFA Financial Management Code of Practice, the Council must demonstrate how its budget is aligned to its corporate priorities. Therefore the Council includes a detailed appendix to its budget report where the proposed budget is allocated against its corporate priorities, as set out in the Corporate Strategy, and therefore explicitly meets the CIPFA requirement. This clearly demonstrates how much money the Council is spending on each priority, we would not expect there to be an equal allocation as services have different numbers of users, unit costs and other drivers of this allocation. The allocation is adaptable and the Council refine this alongside the CIPFA Code of Practice requirements more generally as the activities in support of the new Corporate Strategy evolve and develop.

Throughout the year, the Finance team has worked closely with services to identify unavoidable pressures, additional demand and exceptional expenditure. Services were asked to provide mitigating actions through reducing costs, increasing income or managing down demand. Where services were unable to mitigate the pressures, these pressures were submitted to Council's Executive Management Team (EMT) for consideration and corporate funding. It was accepted and understood by EMT that increasing the pressures to be funded directly increased the resultant budget gap and the savings target for next year's budget. As such, EMT collectively agreed on a lower savings target and that a number of risks would be managed by services directly.

The MTFS makes use of "optimistic" and "pessimistic" scenarios, as well as the assumed main case, on a line by line basis. This is beneficial to members in making information future decisions as they are able to understand the underlying risk being faced and can therefore make judgements as to whether additional risks can be tolerated. Sensitivity analysis also takes place on an informal basis by finance to ensure that the financial impact of small movements in key assumptions is well understood in developing the budget and MTFS. As such the budget setting process is deemed to be robust.

Ambitions to move to a manager self-service approach to budget forecasts were hampered due to recruitment challenges to the Council's Systems Accountant position, alongside a number of significant challenges experienced by the team during 2022/23. Although it is unlikely the Council will be able to move towards this approach during 2023/24, ongoing discussions are being held with the Council's software provider to discuss potential system adaptations during next financial year. No issues have been noted in relation to the level of engagement between services, finance and members despite the delays in this change of approach.

Financial performance continues to be presented on a quarterly basis to Mayor & Cabinet and remains sufficient based on the risk profile of the Council. Prior to the meeting of the Mayor and Cabinet performance is sighted by EMT and Public Accounts Select Committee to ensure that there is a good level of scrutiny and discussion and key issues highlighted to decision makers

We would expect budget monitoring to be presented to decision makers within 1-2 months the period being reviewed to ensure that information is up to date, allowing for reliable decisions to be based upon it. For the most part time frame is adhered to, 2 months being the time-lag observed, with the exception of the year-end outturn position which was presented 3 months after year-end. This has not had a negative impact on decision making as budget monitoring takes place monthly between the finance team and services informally, and the budget monitoring and outturn information is reviewed by EMT and the Public Accounts Select Committee prior to being received by Mayor and Cabinet, therefore there is a detailed level of scrutiny with multiple layers within the 1-2 month time frame.

The monitoring of financial performance against budget, and the forecast outturn, is presented at individual directorate level at each meeting. The reporting also includes capital and Housing Revenue Account (HRA) performance to ensure members have a full suite of performance information, across all elements of the Council's operations, with which to make decisions. The reporting includes extensive commentary to explain the reasons behind the performance within each directorate, pinpointing the drivers at individual service level where relevant, and therefore ensuring that members are well-informed of the causal factors behind the financial position.

Financial governance (continued)

The commentary within the budget monitoring focusses on those sub-services where there are overspends and includes greater detail weighted towards those that are most significant in value, such as Children's Social Care. This is appropriate so as not to overwhelm decision makers with information on all services and allows them to focus their discussion on those services where more significant input is required to generate an improved financial position. In the prior year we observed commentary was focused on the causes of financial under-performance, with limited information on actions being taken to address these casual factors. We raised a recommendation encouraging a shift in the narrative towards the forward look and actions to be taken to respond. Reporting in relation to risk within the budget monitoring has been updated to include actions being taken to control and mitigate these, whether quantified or unquantified, as a direct response to this recommendation.

Capital Monitoring

The Capital and Region Contract Delivery Board are responsible for approving and reporting on each project the Council undertakes, reporting includes metrics detailing the time and cost of project delivery. At the end of each project a project closure report is produced which allows lessons to be learned for future capital projects and is an element of good practice. The Board signs this report off to ensure they are consistently produced for each project.

Formal monitoring of the capital programme, in totality, is undertaken quarterly. Capital monitoring statements are completed by budget holders providing information on progress to date and identified slippage. Regeneration boards also monitor large projects, as an added layer of scrutiny for more complex projects, accounting for the most significant expenditure in the programme. This is an added layer of protection for public money on arguably riskier schemes and represents robust governance arrangements.

Monitoring of the Capital Programme is included within the budget monitoring reporting that is reviewed by Mayor and Cabinet every quarter. Once a budget has been set for a capital project, if amendments are proposed, they must be approved Mayor and Cabinet. This has been put in place as a route to controlling overspends.

The programme was refreshed in full in July 2022, to ensure that it remained affordable and realistic in its expected delivery. The General Fund Capital Programme spend is £33.8m or 70% compared to a revised budget of £48.1m (agreed in March 2023) and the HRA Capital Programme spend is £112.4m or 75% compared to a revised budget of £150.5m (agreed in March 2023). Therefore, whilst the Council has not overspent, due to the measures in place, it also risks not being able to fully meet its objectives by under-delivering on projects which benefit residents. The unspent budget is largely due to delays, with the budget transferred into 2023/24, therefore projects have not been cancelled and benefits are still expected to deliver, albeit later than anticipated. The Council has also had to cancel the modular build project in 2023/24 (see 3E's section) which will result in the cost of the project to date being written off. A full reprofiling exercise is currently underway to ensure that the assumptions within the programme are appropriate, particularly in relation to phasing, in order to address the observed under-delivery and recently cancelled project.

The Capital Programme was developed for 2023/24 to 2026/27 alongside the MTFS to ensure that the revenue impact of capital decisions can be considered at the same time, ensuring that the programme is affordable in the medium term within the Council's anticipated budget. Key risks to the Capital programme are outlined within these proposals and are considered when both monitoring existing schemes, considering new schemes or if schemes should require termination.

A topical issue impacting the sector is the use of reinforced autoclaved aerated concrete (RAAC) in public buildings which has seen partial failures of buildings occurring, predominantly across schools and hospitals. To date Lewisham have identified one school impacted which makes use of the material in two small areas, these have been taken out of action with no impact on teaching. To date no further issues have been noted in the Council's estate and surveys remain ongoing. As such this is not expected to have a material impact on the capital programme based on available information, however the Council should be vigilant to this prospect.

Treasury Management

The Treasury Management Strategy determines how the Council will manage its cash, borrowings and investments in order to meet its objectives and fund its capital programme whilst reaming affordable within the revenue budget each year. The strategy is updated annually as part of the budget setting process, the Council has not made any material changes to the strategy since the prior year and it remains prudent in its level of risk. There are no internal or external factors we are aware of that would lead us to expect any significant changes to the Council's approach to treasury management.

The Council manages its treasury activity within it risk appetite by therefore placing several limits on borrowing such as interest rate exposures, amount of time borrowing can be taken out for, limits on long term borrowing amounts, total operational boundary and authorised limits. Simultaneously the Council's investment priorities are security first, liquidity second, and return last. Therefore it is effectively balancing risk and reward with this approach in order to act cautiously with public funds. The Council has a credit worthiness policy to support its investment approach which has stringent credit criteria, time limits and monetary limits applying to institutions or investment vehicles, which again limits risk exposure.

The Council's treasury advisers have indicated that they expect investment returns to remain high during 2023/24, rates are expected to fall in 2024/25 as the inflation rate is falling. In light of these predictions for high returns and the uncertainty in the markets the Council plans to continue to invest in fixed term deposits of 3 to 12 month duration, which is deemed to be appropriate based on expert advice and maximises the returns based on current information.

Financial governance (continued)

While rates are higher the Council is considering investing in longer term instruments at these fixed rates. The Council has already noted that it will assess, with support from its advisors, other investments for 2-3 years to benefit from these rate of return.

For 2023/24 the Council has set its operational borrowing limit at £607.6m and analysis demonstrates that the borrowing requirements for the capital programme are fully affordable within this. The Council did not breach its Prudential Indicators in 2022/23 and there is no indication of this in the 2023/24 strategy. The Council sets limits in terms of its borrowing such that fixed rate instruments are encouraged, an upper limit of 100% of debt can be from this source, whilst riskier variable rates are not relied upon with the upper limit set at 15%. This seeks to reduce the exposure the Council faces, particularly given the the more recent trend of rising interest rates.

The Council's external debt as at 31 March 2023, gross borrowing plus long term liabilities, was expected to be £464.34m. Per the accounts it is less than this at £406.5m. The majority of the Council's borrowing is at fixed rates with the £92m with the Public Works Loans Board (PWLB) and £120m of LOBO loans at nominal value as at 31 March 2023. £83m of these are fixed rates and £37m have a stepped rate, therefore exposing the Council to some risk of variable rates. £35m will be in their call period in 2023/24 and have a break clause at every biannual interest payment date, £5m have a break clause every three years, and £80m every five years. In the current interest rate environment, the Council feel it is unlikely that the lenders will exercise their options to request early repayment of these LOBOs. In the event that the lender exercises the option to change the rate or terms of the loans within their call period, the Council will consider the terms being provided and also the option of repayment of the loan without penalty. The Council works with their treasury advisoers to formulate a view on interest rates in order to aid in developing their treasury strategy with regards to interest rate exposure and the constitution of their portfolio.

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Mayor and Cabinet receive information on treasury performance twice a year via the Treasury Management Strategy, which includes performance data, and a mid-year performance report each October. This frequency is in line with other councils and is reflective of the low risk associated with treasury activity at the Council. The Council has substantial cash balances at £94m cash and cash equivalents and £218m of short term investments, all of which could be realised quickly should they be required. These are strong balances and it is clear the Council has sufficient cash available with which to support its day to day provision of services as this is greater than the full net expenditure requirement for 23/24 budget.

The latest performance information at January 23 confirms that the Council's portfolio performance is ahead of the overall benchmarking group, as well as a wider group of 22 London boroughs, using information available via the Council's membership of a treasury benchmarking group.

The Treasury Management Strategy for 2023/24 incorporates the capital plans of the Council, which for 2023/24 are £193m and reduce to £166m and £105m in the two following years. The Council plans to fund the majority of this with prudential borrowing of £108m in 23/24 and reducing in the latter years, the remainder being financed from Capital Reserves and Grants. This demonstrates a desire to reduce reliance on borrowing in the medium term and is sufficiently diversified.

The Council's borrowing need is calculated using the CFR (Capital Financing Requirement), which is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so its underlying borrowing need. The Council in 2023/24, and beyond, plans to keep an under-borrowed position, therefore is looking to only borrow as the need arises to limit exposure to credit and interest rate risks, this is prudent treasury management ensuring that the Council is not over exposed unnecessarily. The borrowing position is below both the operational boundary and the authroised limit and therefore does provide some headroom to borrow more should this be required, however the CFR is greater than both of these and therefore the Council is aware that must utilise other sources of funding such as grants. Cash supporting the Council's reserves, balances and cash flow has been used as an alternative funding measure, and as noted the Council has substantial cash balanced built up over a period of time to facilitate this. In the current economic climate this strategy is considered prudent while investment returns are low and counterparty risk remains an issue to be considered by the Council.

Pension Fund

Lewisham is the administering authority for the Lewisham Pension Fund, which is part of the national Local Government Pension Scheme (LGPS). The Council have both a Pensions Board and a Pensions Investment Committee to assist members in making decisions in relation to the pension fund, together they ensure that relevant information and assurances can be provided in relation to the Fund.

The constitution of the Pension Board consists of 2 employer representatives, and 2 scheme member representatives, all of them appointed in accordance with the Pension Board detailed Terms of Reference. Terms were reviewed and approved by the Board in March 23 and therefore are considered up to date.

The purpose of the Pension Board is to ensure the Council is complying with relevant legislation in it's administration of the fund and that there is efficient and effective governance arrangements in place. Ahead of the 2022/23 year clear workplan for the Board was set which committed to quarterly meetings and specific reports to ensure that the Board was effective in its duties. Meetings of the Board were observed as being fairly sporadic in the prior year, with a meeting held in October 2020 and then not again until March 22, and so the Board did not apply the same rigour in carrying out its role as we might expect. This has improved in 2022/23, with 6 meetings held between June 22 and September 23, and therefore there is an appropriate level of oversight taking place and evidence of adherence to the formalized workplan.

The Pensions Investment Committee (PIC) is an additional layer of assurance which mitigates some of the risk of the Pensions Bard not meeting regularly in 2021/22, as they met 5 times in that year.

Financial governance (continued)

This group regularly discussed fund performance, ways to ensure low carbon equities were considered in the investment portfolio and general updates. These items are sufficient for members to understand the performance of the fund and make decisions accordingly.

The Board review a training log and a breach log to ensure that the Council are effectively managing the fund and there is no evidence of breaches in 2022/23 observed from this information.

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. Managers are answerable to the Committee and The Treasury and Pensions Team within Strategic Finance at the Council, who look after the day to day running of the fund.

The Pensions Investment Committee meets quarterly, deemed sufficient based on the risk profile of the fund, and its focus is on discussion of investment performance reports, the risk register and other notable reports such as the results of the triennial valuation, investment strategy statement and funding strategy statements as well as opportunities to meet fund managers associated with investments where they can be questioned and held to account. We believe the agenda's for this committee to be effective and the direct contact with the actuary and individual fund managers represents strong monitoring arrangements.

We have noted in 2023/24 that there have been ad-hoc reports related to Climate Risk Analysis and the Net Zero Pathway and therefore demonstrates that the Council is also ensuring that its pension fund investments reflect its own priorities. The investment managers also consider the Committee's views on environmental, social and governance (ESG) factors. Details of the ESG factors are contained in the Investment Strategy Statement and published online.

The fund has a statement of investment beliefs which includes guidance on what investments the fund is allowed to make, aligned to the Council and fund priorities. This includes guidelines which encourage investment in climate change principles. Climate is clearly a key principle in the investment of the fund, their investment strategy is focused on diversifying the fund away from fossil fuels to low-carbon mandates.

Hymans Robertson continue to be the Council actuary and report on fund performance to the committee. The Council worked with the actuary to prepare a Funding Strategy Statement which is effective from 1 April 2023, having been approved by the Pension Investment Committee in February 2023. This sets out how money will be collected from employers to meet the Fund's obligations. Contributions, assets and other income are then invested according to the strategy and so ensures that the Council is taking a forward look when managing the fund.

At the end of 2022/23 the fund's assets returned 3.6% over the quarter, slightly less than the benchmark return of 3.9%. However the fund continues to perform broadly in line with its strategic benchmark over longer periods, with relative outperformance over the 1- and 3-year periods, and just behind its benchmark performance of 7.2% per annum since inception. This is suggestive of good performance and therefore would not impact the Council's ability to deliver its services. The annualised return of the Fund's investments over the last 12 months was -4.61%, which does demonstrate recovery in rates of return by the last quarter of the year. This annual performance was still 0.21% above the benchmark return. Over the last five years, the Fund's absolute return on its investments is 7.29%, which is approximately 0.66% above the benchmark return of 6.64%, therefore demonstrating this improved performance on a longer term basis.

The Pension Fund's value decreased over the year by £95m (5%), £1.750bn to £1.655bn. The Fund value of the fund decreased due to the changes in global markets mainly caused by the war in Ukraine. The quarterly reporting does demonstrate that the value of the Fund's assets increased by c. £57.2m over the final quarter of the financial year and are now £1,653.9m and this has continued in 2023/24, demonstrating recovery suggestive of effective management of the fund. The fund is not exposed to Russian markets, which would have been considered a potential risk in year, and operates a diversified portfolio that is aimed to ensure they are not overly exposed to any one area.

Overall, for 2022/23 the Actuarial Present Value of Promised Retirement Benefits is a net liability position of £141m. This is the value of assets when compared with what the fund expects to pay out, and is essentially a net loss position. This is a prediction, which has improved from a prior year predicted £620m deficit position. In context the current funding position has improved from 90% to 97% fully funded and is therefore a positive trajectory.

The net liability prediction is based on a significant number of complex assumptions including the discount rate, salary increases, mortality rates and expected returns on fund assets. Given this is present value calculation based on assumptions, rather than actuals, there has been an improvement from prior year and currently there are sufficient assets to fund liabilities arrangements are adequate. There was an increase in assets in the prior year and as such currently this is seen as a one year impact of market conditions and will be reviewed again next year.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring financial sustainability and do not represent a weakness in current arrangements. The Council's financial arrangements remain fit for purpose and improvements have been evidence since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations – Financial Sustainability

Improvement Recommendation 1	Increasing demand for homelessness related services, such as temporary accommodation, is increasing across the sector and therefore the Council may benefit from learning from other organisations who have also successfully responded to the demand side challenge via prevention strategies
Summary findings	The largest overspends in 2022/23 relate to childrens' social care, education services and strategic housing which are all demand led services and common sources of pressure across the sector, as such not evidence of a lack of control specifically attributable to the Council. We have noted extensive actions being taken to respond to the issues within education and childrens' social care and the cost drivers are well understood. The strategic housing pressure is a result of increasing demand for temporary accommodation, with demand outweighing supply the Council are being forced to fund expensive private provision to meet its statutory duties. The service is actively seeking to reduce numbers accommodated and is set to embark on the purchase of up to 300 new units for this type of accommodation. This will potentially reduce the numbers accommodated in expensive nightly paid accommodation. This seeks to address both the cost and supply challenges associated with the service but does not impact demand.
Management comments	XXX

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Improvement Recommendation 2	The Council should keep risks under review within the budget to ensure they are complete, and fully mitigated, incorporating emerging risks into financial plans as they arise
Summary findings	The budget includes consideration of risks which have not been funded, due to insufficient funding to do so, and/or are difficult to quantify with any certainty. Officers continue to undertake work to fully assess and monitor these risks, have contingency included within the budget to respond as they emerge and have sufficient reserves. The risks identified are in line with sector wide risks that apply to Lewisham. Emerging pressures noted from the 2022/23 outturn and 2023/24 budget monitoring to date are childrens' social care and temporary accommodation within the strategic housing service, the Council are also in the process of bringing Lewisham Homes Ltd services back in house, we would suggest each of these areas carry potential unanticipated costs and therefore are additional risks to the budget.
Management comments	XXX

Improvement recommendations – Financial Sustainability

Improvement Recommendation 3	Given the track record of under-delivery against target the Council should review the approach to savings identification process by moving away from the roll forward approach to savings each year, towards a full refresh of the savings programme. Given the trend of savings under delivery each year consideration should be given to including an optimism bias adjustment to ensure it is realistic in its requirements.
Summary findings	In 2022/23, there were £25.8m of savings to be delivered included in the budget in order to breakeven, including £5.6m as yet undelivered from 2020/21, £8.4m undelivered from 2021/22 and £11.8m new savings for 2022/23. Savings are continually rolled forwards into each year's budget, with many undelivered for several years.
Management comments	XXX

Improvement Recommendation 4	To maximise the benefit of the 'deep dive' exercise into the pressures within childrens' social care the Council should seek to develop a detailed action plan which is monitored sufficiently regularly with the support of service heads and members. The Council should extend the deep dive process to cover other services with significant overspends.
Summary findings	The Council has a detailed understanding of the causal factors associated with the pressures in Childrens Social Care and undertook a deep dive into the challenges, which was presented to members via the Public Accounts Select Committee in March 23. This information is useful to help members and officers in understanding the drivers of cost and demand, but no action plan to address the findings has been observed. The deep dive approach to investigating the causal factors of the pressures in Childrens Social Care has been effective in clearly identifying where the Council should target its actions to address continued overspend and savings under-delivery. In 2022/23 and 2023/24 to date the Council has also experience significant overspends in Adults Social Care, Education Services and Strategic Housing for which deep dives have not yet taken place.
Management comments	XXX

Governance

We considered how the Council:

- monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud
- approaches and carries out its annual budget setting process
- ensures effective processes and systems are in place to ensure budgetary control; communicate relevant, accurate and timely management information (including non-financial information); supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships
- ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency
- monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and member behaviour (such as gifts and hospitality or declaration of interests) and where it procures and commissions services.

Risk Management

The Council reviewed and refreshed its Risk Management Strategy in 2022/23. The Strategy, covering 2023-27, was approved by the Council's Executive Management Team in late November 2022 and subsequently presented to the Audit Panel in March 2023. As such it has not been in place for the majority of the 2022/23 year, but has been applied to the quarter 4 reporting processes. The first three quarters of the year risk was managed under the previous strategy .

We would expect policies of this nature to be refreshed within a 3-5 year period, although the wholesale refresh was delayed it did take place by 2022 and the strategy in its old format 2017-22 edition was last seen by the Panel in June 2021. As such this refresh has accordingly met this recommended timeframe required to ensure it remains fit for purpose.

The strategy itself is clear, concise and guides users through all elements of the process we would expect to see (identification, evaluation, response, monitoring and reporting), with useful examples at each stage. To guide staff in identifying and evaluating risks a web form has been developed which is used for collecting information about new risks being identified. This standardized approach ensures consistency across services and ensures efficiency when collating information, this is an area of good practice that successfully streamlines the process which the strategy update sets out to achieve.

Alongside the strategy the Council has acquired a new bespoke Risk Management software, this was installed in May 2023 and seeks to digitise the process. This again achieves standardisation of approach and recording of risks across the Council and adds to the efficiency of the process. We note that the updated strategy was brought into effect prior to the acquisition of the software, the software is underpinned by the framework in the strategy, however there is no additional guidance (or link to additional guidance) within the Risk Management Strategy related to applying the strategy in practical terms within the new tool (Recommendation 5).

The Council's Audit Panel (now the Audit and Risk Committee) continues to receive quarterly reports on strategic risk management from the Executive Management Team, including the Risk Register for review. The format of the register is very much informed by the strategy and the new software and therefore there has been a notable change in the reporting for the final quarter in 2022/23 Although this position is very much an interim style, as the new software is 'built out' to maximise its full capability and functionality. While the software is being updated the Council are reporting risks in the previous tabular format as well as a summary from the software itself. During the transition period this ensures that members have an understanding of the changes and do not lose any information upon transition.

Risks continue to use a well established and understood. A 5x5 matrix scoring system is utilized and risks are RAG rated. However the new framework, and software, includes a broader range of risk categories compared to the previous strategy (which included high, medium and low risk only). This ensures that specific approaches can be applied based on a more accurate reflection of the nature of each risk, this is particularly important for HILL (High Impact Low Likelihood) which, unlike other risk, are typically large-scale risks managed through business continuity and resilience approaches as opposed to risk reduction techniques. Other improvements as a result of the new strategy and software include assigning each risk to a specific individual to increase accountability and including a specific response approach aligned to the 4T's within the new framework (tolerate, transfer, treat, terminate). Details of controls and assurances and linking risks directly to corporate priorities is not yet complete, nor does the tool include the direction of travel for each risk. These features would give more oversight and transparency to members with a brief statement explaining the reasons why risks is increasing, decreasing or remaining static This would be best practice and as such the Council may consider these areas as it continually reviews and updates the new tool. (Recommendation 5)

Governance (continued)

From quarter 4 the Council include, alongside the risk register, details of changes in risks since the last report. This is useful to demonstrate to decision makers the impact that external factors, or Council implemented responses . Therefore, it would be beneficial to consistently include this information in reports going forwards (Recommendation 5).

As at year end 28 risks were identified on the corporate risk register. We would expect the number of risks, that is deemed manageable but also reflective of the size of a Council such as Lewisham, is between 15 and 30 based on our experience and that we see at other similar Councils, therefore being within this threshold the number of risks are manageable. All risks are strategic in nature, rather than operational, therefore ensuring the register is effective in its aim of managing risks to achieving the corporate objectives of the Council. Overall, the risks included pertain to the objectives and services the Councill provides. Two potential emerging risks that we would expect to see are the risks associated with the in-house transfer of Lewisham Homes and the impact of the imminently expected Ofsted re-inspection of Childrens Services. The Council has acknowledged the Lewisham Homes risk within the quarter 4 reporting and this is expected to be included in a later iteration, we would encourage this ongoing review of risks to continue to consider areas such as Ofsted (Recommendation 5).

The new strategy formalises that the Council will commission, at least once during this strategy's lifespan, an independent internal review on its operational effectiveness, as well as actively seeking feedback from users, ranging from operational staff managing and identifying risks to Senior Leaders. This will ensure that the strategy can continually evolve, this and remains fit for purpose.

Internal Audit's opinion, for 2022/23, is that the risk management arrangements at the Council for the year ended are effective and provide satisfactory assurance. In 2021/22 time was taken to develop the Council's risk approach to include its reporting, content and integration with wider decision making. Whilst there has been considerable progress during the year as a result of the new strategy, further development is needed. We have observed this taking place consistently with changes to the reporting of risks and use of the software since Internal Audit's year end reporting was produced.

Internal Audit

The audit service continues to be delivered by an in-house team of auditors complemented by support from PWC and TIAA. Despite changes in senior leadership and the Head of Internal Audit being relatively new to the Council, in post since January 2022, we have observed a good level of communication between Internal Audit and those officers. The Council is well supported by their Internal Audit function.

Internal Audit develop their plan ahead of each financial year based on risk assessment and discussion with officers and members to ensure it has sufficient coverage of the Council's operations and high-risk services. The 2022/23 Internal Audit Plan was approved by the Audit Panel in March 22 and accounted for a total of 770 days across 31 audits.

Of the 31 audits 15 related to individual schools as opposed to council-wide services. There are no significant Ofsted concerns regarding schools associated with the Council, there is a good track record of Internal Audit ratings from these audits and there are no significant risks in the risk register related to schools as a whole or individually. As such it could suggested that the Plan is not sufficiently targeted based on risk and therefore there is opportunity for the Audit and Risk Committee to liaise with Internal Audit to ensure a diversified Plan going forwards (Recommendation 5).

The Internal Audit team experienced capacity issues in the prior year and as such entered 2022/23 with a backlog of assurance reviews to complete. At the end of 2022/23 the Internal Audit team was able to clear this backlog and completed 19 2021/22 reviews alongside 31 2022/23 engagements. At the year end there were 8 reviews which had not yet been reported, however fieldwork for each had been completed and a draft report provided to management for comment, as such these do not represent any gaps in assurance. The Internal Audit team did remove 15 reviews from the original plan, 6 due to lack of capacity in the Internal Audit team and others due to service restructures or delays by individual schools being reviewed. The removals are across a range of services and therefore do not represent gaps in assurance as there is sufficient coverage across the Council.

Overall, of the 50 reviews completed in 22/23 3 received 'limited' or 'no' assurance (6%), fewer than the prior year when there were 4 'limited' assurance reviews, and therefore does not suggest a pervasive control issue across the Council. The reports with these ratings cover air quality, contract management and IT asset management with no common themes suggesting systemic issues.

The removed audit reviews and 'limited' and 'no' assurance reports have not had a negative impact on the overall Head of Internal Audit opinion, which remains positive in its assurances of the control environment of the Council.

The annual Internal Audit report confirms that all internal audit work was taken in accordance with the Public Sector Internal Audit Standards. The required External Quality Assessment was carried out in 2021/22. This review is required every 5 years by the standards and so the Council has been compliant in undertaking this in the expected timeline. The assessment concluded that Lewisham generally conforms to the Standards. This is the top of a three-point scale that also includes 'partially conforms' and 'does not conform' as possible outcomes.

Governance (continued)

Noting that external assessments are only required every fifth year, in 2022/23 Internal Audit supported the conclusion by undertaking a self-assessment that was reported to the Audit Panel during 2022/23. This confirmed that the service has addressed all of the improvement matters noted in the 2021/22 external assessment.

Compliance and Complaints

The Council's Constitution and Codes of Conduct set out the standards of behaviour expected of officers and members in undertaking their roles. Discussion with the Council's Monitoring Officer confirmed that, while there are instances of trivial non-compliance each year, there have been no significant instances in 2022/23 which have required escalation nor cause concern over the Council's governance.

The Council has a Standards Committee in place who met twice during 2022/23, with the overriding purpose of monitoring whether the expected behaviors of Council members and employees are being complied with. In 2022/23 this has predominantly been achieved by the monitoring of complaints at Council-wide level. Three meetings of this committee were cancelled in 2022/23 and this is reflective of the low level, and risk, as a result of complaints levels at the Council. The committee has two sub-committees to consider specific cases in detail as they arise and therefore supports the overarching committee between its meetings, therefore mitigating any risk associated of less frequent meetings taken place. It is clear that upholding appropriate standards of behaviour is taken seriously by the Council.

The Council has clear and transparent processes in place for the lodging and monitoring of complaints. Where standards are not felt to be being complied with it is important that the Council respond in a robust and timely manner to ensure these do not escalate and have a wider impact on the ability to meet objectives. An annual complains report is presented to Mayor and Cabinet, following review by the Executive Management Team and the Standards Committee, to ensure that those at the top-tier of the organisation are sighted and can take action should this be required. The report sets out complaints and casework performance in 2022/23 as well as the measures being put in place to improve complaint handling, performance and service delivery. The report for 2022/23 shows that performance was at 74% for complaints answered within 10 days against a target of 90% and has improved by 1% compared to last year despite a significant increase of complaints by 20%. It is also worth noting that 98% of all complaints received were completed in 11 days (just 1 day outside of the Council's target of 10 days) and therefore is not indicative of serious challenges in this area. The Council has recognised improvements that could be made and have begun to progress these. This has included ensuring that the Corporate Complaints team meet on a monthly basis with several teams that either have relatively high volume of complaints, and/or poor performance. The Council has invested in complaints software iCasework to generate efficiencies and developing Complaints Handling Induction courses.

Complaints can be escalated to the Local Government and Social Care Ombudsman where they are considered to be serious in nature or have not been dealt with effectively by the Council.

A total of 31 investigations for the period between 1 April 2022 to 31 March 2023 were undertaken by the Ombudsman, of which 68% were upheld, meaning action was required to resolve the complaints following investigation that was not initially identified as required or addressed by the Council's own processes. This compared favorably to 77% average nationally, but only 14% of those cases had satisfactory remedies already issued by the Council. In 100% of cases the Ombudsman were satisfied the Council had successfully implemented recommendations following their work. The number of cases is small, however if the number of upheld decisions continues to rise, as there has been small increases year on year, the Council may need to consider improving its own internal processes to respond (Recommendation 6).

The Ombudsman's work resulted in a total of 16 compliance outcomes but have raised concerns via a letter to the Council that in 4/16 of the cases recommendations were not completed within the agreed timescales, delays in apologies being provided to complainants and lack of explanations for all cases where there were delays. This was the third time the Ombudsman had to raise such concerns with the Council. Therefore the Council should review its arrangements for liaising with the Ombudsman to ensure responses are on time and to consider how it might reduce delays in complying with agreed recommendations (Recommendation 6).

Ongoing training is a key mechanism by which the Council ensures that quality and standards in decision making are upheld. Mandatory training compliance is considered to be a priority under the current Chief Executive, which is necessary to increase due to staff turnover that has taken place over recent years. An area of good practice noted is internally developed software which builds in a 'countdown' for each piece of mandatory training, if the target date is not complied with the user is locked out of all systems. This measure is aimed at improving training culture with immediate effect.

On 27 March 23, the Council was served with an Enforcement Notice by the ICO (Information Commissioner's Office) for its poor performance in responding to Freedom of Information requests (FOIs) within the statutory time limit of 20 working days, specifically relating to the backlog of requests that has built up. The enforcement order required the Council to publish an action plan within 35 days and close the backlog of FOIs within six months. We confirmed an action plan has been agreed with the ICO and all teams are working together to clear the historical backlog. The action plan is also published on the Council's website. Confirmation from the Monitoring officer indicated that the Council has complied with the ICO's FOI Enforcement Notice and as a result of the actions taken to date there are no historic FOI responses outstanding. An updated improvement plan will be published on the Council's website imminently and will continue to be reviewed by the Monitoring Officer who, in turn, updates members informally, regularly, and updates Mayor & Cabinet periodically.

Governance (continued)

The Council has an Anti-Fraud and Corruption Team (A-FACT) dedicated to the deterrence, prevention, detection and investigation of any fraud or irregularities within Council proceedings. The A-FACT investigates all fraud and irregularity reported to the Council. Their annual report for 2022/23 highlights the fraud activity undertaken in the year. A reduction in Covid-related workload has allowed for resumption of more preventative and governance work, including fraud awareness training and developing a revised counter fraud policy. The percentage of new cases of special investigations increased by 67% in 2022/23 (67 cases in 21/22 to 112 in 22/23). The team have reviewed the increase and confirmed that there is no strong evidence that this represents an increase in the underlying level or vulnerability to fraud. This is viewed as an expected rebound to 'routine' referrals in line with a more general return to regular business. Given the significant staff base at the Council this is not considered to be a high number of cases. At the same the Council has seen a reduction in heavy response workload allowing the service to look more long-term to strengthen the Council's counter fraud response, including expanding the capacity of the team.

Policies, Constitution and Committees

It is important that the Council keep key policies under review, we would expect this to take place every 3-5 years, in order that they remain fit for purpose within the evolving internal and external environment. In 21/22 we confirmed that a revised Whistleblowing Policy was in development pending the completion of internal consultation and approval. In 2022/23 it has been reviewed by Senior Officers at the Assurance Board and presented to the internal staff Change Network on 26 October 2022. However the Council still retains the October 2017 policy per its website which is outdated and outside of our expected timeframe for review. We are aware the updates have taken place and therefore the Council will need to ensure the latest version is made available and easily accessible to all staff to ensure policy is followed consistently (Recommendation 7).

The Council reviewed and updated its Anti-Fraud and Corruption Policy in September 2023, this is updated on an annual basis, and approved by the Audit Panel/Audit and Risk Committee. The policy has clear roles and responsibilities and sets out the Councils commitment to embedding an established anti-fraud culture. The policy sets out the standards and requirements from all Members, Officers, Agency Workers, Consultants and Contractors and therefore ensures responding to fraud risk is the responsibility of all people involved in Council services.

The Constitution underpins all decision making at the Council and is a key governance tool. The Constitution is kept under review regularly by the Council and was last revised in May 2023, pending completion of a full review which is ongoing. Constitutional changes were reported to Full Council in March 23 for their approval and therefore the rules set out within it have been agreed by the leaders of the Council. The changes made predominantly relate to a strengthening of the committee structure including changing the name of the Audit Panel to the Audit and Risk Committee and expanding its remit, reducing 4 planning committees to 2 and simplifying the Overview and Scrutiny structure from a three tier to a two tier system. This has achieved efficiency through streamlining whilst maintaining a strong governance structure. There is an ongoing Scrutiny Task & Finish Group looking at the effectiveness of the Council's scrutiny arrangements to ensure that as the changes embed they remain effective,.

In October 2022 the Redmond Review was published, which is CIPFA's published guidance on the role of Audit Committees in local authorities. The Audit Panel's March meeting included a report on this guidance and its implications for the role and work of Lewisham's Audit Panel (now Audit and Risk Committee). Overall, based on self assessment, the Council committee 'materially conforms' with CIPFA's expectations. However the opportunity has been taken to review arrangements despite this level of compliance and in line with the guidance the committee agreed that 3 independent members would be appropriate, 2 as the minimum, as they can be very useful in this area and that recruitment should be a priority. This is evidence of the Council's ongoing drive to improve its governance arrangements.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring robust governance and do not represent a weakness in current arrangements. The Council's governance arrangements, where unchanged from prior year, remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations – Governance

Improvement Recommendation 5	The Council should continue its iterative improvement journey in relation to risk management by specifically: • including additional guidance (or link to additional guidance) within the Risk Management Strategy to assist users in applying the strategy in practical terms within the new software tool the Council has implemented • linking risks to corporate objectives, completing the approach to responding to each risk within the risk register. Ensuring gaps in information are completed, there is a direction of travel of each risk and ensuring completeness of controls and assurances information • consistently including details of changes in risks since the prior period within each report to Audit and Risk Committee to allow members to understand the impact actions are having on the risk profile of the Council • ongoing review of the risk register to ensure completeness of risks, ensuring emerging risks are captured. • liaising with Internal Audit to ensure that their Audit Plan is sufficiently diversified and reflective of risks in the risk register
Summary findings	The Council reviewed and refreshed its Risk Management Strategy in 2022/23 and the Strategy, covering 2023-27, was approved by the Council's Executive Management Team in late November 2022 and subsequently presented to the Audit Panel in March 23. This was implemented before the Council acquired its new risk management software in May 2023. Updates have been made to the format of the risk register to include responses aligned to the 4T's within the new framework (tolerate, transfer, treat, terminate). Details of controls and assurances and linking risks directly to corporate priorities is not yet complete, nor does the tool include the direction of travel for each risk. This would give more oversight and transparency to members with a brief statement explaining the reasons why risks is increasing, decreasing or remaining static While the new risk management software is being updated the Council are reporting risks in the previous tabular format as well as a summary from the software itself, the summary format does not present all of the key information members require with which to understand and make decisions based on risk. From quarter 4 the Council included, alongside the risk register, details of changes in risks since the last report. This is useful to demonstrate to decision makers the impact external factors, or Council implemented responses are having. Two potential emerging risks that we may expect to see are the risks associated with the in-house transfer of Lewisham Homes and the impact of the imminently expected Ofsted re-inspection of Childrens Services. The Council has acknowledged the Lewisham Homes risk within the quarter 4 reporting and this is expected to be included in a later iteration Of the 31 internal audits 15 related to individual schools as opposed to council-wide services. There are no significant Ofsted concerns regarding schools associated with the Council, there is a good track record of Internal Audit ratings from these audits and there are no significant risks in the risk register related to schools as a whole or individually.
Management comments	XXX

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Improvement recommendations – Governance

Improvement Recommendation 6	The Council should ensure that internal processes to respond to complaints are effective therefore limiting the need for input by the Local Government and Social Care Ombudsman. Where complaints are raised to the Ombudsman the Council should review its arrangements for liaising with them to ensure responses to their recommendations are timely.
Summary findings	A total of 31 investigations for complaints in the period between 1 April 2022 to 31 March 2023 were undertaken by the Ombudsman, of which 68% were upheld, meaning action was required to resolve the complaints following investigation that was not initially identified as required or addressed by the Council's own processes. The Ombudsman's work resulted in a total of 16 compliance outcomes. They have raised concerns via a letter to the Council that in 4/16 of the cases recommendations were not completed within the agreed timescales, delays in apologies being provided to complainants and lack of explanations for all cases where there were delays. This was the third time the Ombudsman had to raise such concerns with the Council. The Council should review its arrangements for liaising with the Ombudsman to ensure responses are on time and comply with the agreed recommendations
Management comments	XXX

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Improvement Recommendation 7	The Council should ensure that the most up to date versions of key policies and procedures, such as the Whistleblowing Policy, are available and easily accessible to staff to ensure they can be followed consistently across the Council.
Summary findings	In 21/22 we confirmed that a revised Whistleblowing Policy was in development pending the completion of internal consultation and approval. In 2022/23 it has been reviewed by Senior Officers at the Assurance Board and presented to the internal staff Change Network on 26 October 2022. However the Council still retains the October 2017 policy per its website which is outdated and outside of our expected timeframe for review.
Management comments	XXX

Improving economy, efficiency and effectiveness

We considered how the Council:

- uses financial and performance information to assess performance to identify areas for improvement
- evaluates the services it provides to assess performance and identify areas for improvement
- ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives
- where it commissions or procures services assesses whether it is realising the expected benefits.

Performance Reporting

Since the prior year the Council has updated the way it monitors its financial performance. The Council has moved away from reliance on Key Performance Indicator (KPI) reports to members outside of Mayor and Cabinet meetings and Directorate Management Reports also monitored at informal directorate meetings and Executive Management Team Meetings. This approach was not presenting performance in a transparent way and focused predominantly on high-rated risks. In 2022/23 the Council developed a centralised online dashboard for monitoring these metrics and this is made available publicly via the website in order to address the transparency issue. The data on the website is made available through the Power Bi data platform which makes the data more visually immersive for the public to view and is easy to understand. There are 69 KPIs overall and each is linked directly to a priority in the Corporate Strategy and therefore means the Council are proactively monitoring the actions and targets that would impact whether they can meet their key objectives. At the time of undertaking our review in October 2023 quarter 3 data for performance was being reported externally and therefore a 10 month time-lag, within this some information for individual targets is also outdated and from 202/21 and 2021/22 in some instances. This reduces the benefit of the information as decisions cannot be reliably be based on out of date information. Quarter 4 data has been collated and presented to Mayor and Cabinet in September 2023, it was approved and expected to be uploaded into the public dashboard imminently. Although the time-lag is reducing this still limits the benefit of the data to decision makers. The tool is very much a work in progress and is being updated iteratively. The Council should maximize the benefit the tool can provide by including a target to gauge performance against (there are currently gaps) and a clear owner for each KPI could be identified to aid accountability(Recommendation 8).

The fact that the KPI reporting from the dashboard has been made available to Mayor and Cabinet prior to publication on the website is a direct response to our prior year findings and should be continued to allow effective scrutiny of the performance in a formal setting.

There is also benefits to be realized by presenting this information at the same timeline as financial reporting so that the impact of financial decisions on operational performance, and vice versa, can be considered.

No significant changes are expected to the tool in 2023/24, however it is kept under review with members, a further metric related to debt exposure has been proposed informally as well as a commitment to reduce the time lag in the data.

Individual directorates continue to have their own performance management metrics, which are reported in the Directorate Management Reports internally, but these are not necessarily linked to corporate priorities as the Council-wide KPIs are. We would recommend that a process takes place to ensure that directorate metrics are consistent with and work towards the Council-wide priorities and KPIs. Discussion with officers have confirmed that the directorate KPIs will now be mapped to corporate strategy and developed into an annual report. This work has started and will compliment the KPI reporting at Council level (Recommendation 8).

The Corporate Strategy, spanning 2022-26, aims to entirely revamp the way performance is measured and managed. As evidenced, action are well underway to achieve this. Future performance monitoring will culminate in an annual report to Full Council, where progress against external and internal priorities will be reported on. Therefore it is clear that the Council is on an iterative improvement journey in relation to non-financial reporting.

Improving economy, efficiency and effectiveness (continued)

Benchmarking Analysis

Using Grant Thornton internal benchmarking tools, which makes use of the annual RA data (budget) return forms sent by each council nationally to Department for Levelling Up, Homes and Communities (DLUHC), we have compared the budget of Council services with all other London Boroughs. This is a tool designed to highlight high level potential opportunities for savings where budgets are comparatively high, with the caveat that the information does not account for variances between boroughs in demographics or differences in the categorisation and completion of the underlying RA returns by different councils. This analysis has identified those services with very high comparative budgets.

Service	Total Cost 22/23 £000	Units (per head/per dwelling)	Unit Costs £	Unit Cost Score
Primary schools	186,723	21,703	8,603.56	Very High
Secondary schools	108,204	9,790	11,052.50	Very High
Special schools and alternative provision	60,796	52,273	1,1,118.38	Very High

Lewisham is relatively well funded in terms of DSG allocation, with the exception of the High Needs Block where Lewisham, as with most other Councils in both London and nationally is facing pressures. The data is showing higher than average levels of per pupil funding, which (with the exception of the High Needs Block) has in part been the driver for the majority of Lewisham schools being able to set a balanced budget and not operate with a deficit. The overall schools position is a surplus of £19m, down from a surplus of £26m in 2021/22. However, there are still some schools running a deficit position within this. At the end of 2022/23 21 schools are now in a deficit position. The dedicated Schools Finance Team continues to work closely with Schools to support where this is possible. All schools in deficits are required to progress a deficit recovery plan where one is not already in place.

Within the Council's year end outturn reporting and budget monitoring for 2023/24 to date it is clear that the cost and demand pressures in this service are well known, which are predominantly related to pupils within the High Needs Block funding. The schools element of the budget has performed on target and continues to do so. However pressures within Education Services are being caused by:

- increased costs and demand in home to school transport for those pupils who are looked after children or have complex needs,
- direct additional costs for increasing numbers of children with complex needs as a result of the additional ratios of staff to pupils required
- the need for more Education Psychologists due to the continued increasing numbers of education, health and care plans (EHCP's).

As noted within Financial Sustainability, as part of the response to the DSG deficit, the Education Service is currently working towards a mitigation plan with the Department for Education (DfE) as part of the Delivering Better Value support package, to focus on reducing costs whilst maintaining service quality. This is in development, there is an expected time lag before the actions are fully embedded and able to impact the current high costs. The Council should consider ensuring there is regular oversight of the action plan, as a stand lone item or via inclusion within the newly developed KPI reporting, to ensure that the embedding of actions can be progressed (Recommendation 9).

As measured by the Council's own KPIs for quarter 4 of 2022/23, quality of education related services is good with school related metrics performing well or close to target level. The metrics demonstrate that overall pupils have high levels of attendance, achieve the grades expected and are not excluded in significant numbers. There is the caveat that some of this data is outdated due to Department for Education publishing delays and therefore we are unaware of the impact of the current high unit cost on all metrics for 2022/23.

Improving economy, efficiency and effectiveness (continued)

Currently, the KPIs focus on education outcomes, which are important, however the cost drivers are not considered. Given the overspends and DSG deficit the Council should consider, when reviewing their KPI reporting, including metrics which focus on these cost drivers so that specific actions to target them can be discussed (Recommendation 9).

Service Quality

The Council's own performance monitoring is a key mechanism by which the council can judge the overall quality and effectiveness of its services. At the end of 2022/23 13 of the Council's 71 KPI's were rated as 'working to improve' meaning they were behind target performance, this is around 18% and shows the majority of metrics are performing positively as a result of council actions. The below target metrics are across a range of issues such as Freedom of Information (FOI) and Subject Access Request (SAR) response rates, agency staff usage, numbers of homes being delivered, ethnic diversity, flu vaccinations and HIV status statistics and therefore not indicative of any systemic quality problems as these are diverse in nature. The reporting includes the actions being taken in all cases and as such demonstrates immediate response by the Council.

The metric which would be considered the furthest behind target is number of net additional homes delivered which is at 599 compared to a target of 1,385 (56.7% below target). The Council are progressing home construction, with a capital programme weighted towards projects in this area, and are bringing Lewisham Homes back in house to ensure greater control over delivery. In addition, New Homes England statistics confirm that house building delays and supply issues caused by the pandemic started to recover from 21/22, as such the Council should start to see an improvement in the metric from its own actions and external factors. The data in the KPI reporting is from 2021/22 and therefore the impact is yet to be seen.

Internal Audit provide individual reports on services for which they have undertaken reviews, as well as an overall year end opinion on the effectiveness of controls at the Council, informed by its individual reviews. The lowest level of assurance that Internal Audit provide is a rating of 'no assurance' and is indicative of controls that are not operating effectively, they have the potential to impact the standard of service/s being provided. Internal Audit gave rated IT asset management processes within this 'no assurance bracket for 2022/23. The review highlighted that it found failures due to a lack of documentation and varying application of processes at each stage of the IT process from procurement, management and disposal of these assets.

11 actions were put in place, classed as high severity, and an action plan has been developed, assigned responsible owners. Internal Audit were informed between the draft report being issued to management and it being finalized that a number of actions had already been completed and therefore shows a timely response to the concerns raised. The findings relate to one area of the Council's estate, therefore the issues are not deemed to be pervasive, nor are physical IT assets a material element of the Council's substantial estate. This is supported by the fact that the year end opinion from the Head of Internal Audit is one of positive assurance as quality issues are not more widespread from their remaining reviews. Internal Audit plan to follow up the actions, and their impact.

External Reviews

Ofsted undertook a focused visit of Lewisham's Childrens Services in 2021. This was a follow up from a 2019 inspection of the service which 'required improvement to be rated good'. The re-visit noted improved and strengthened services for children in care and noted 5 further improvements.

The Council is expecting a full re-inspection imminently, although this has yet to be announced. The Council have ensured they are prepared for this re-inspection via a detailed self assessment which suggests that the Council are confident that they are now providing good services to children, young people and families. In responding to Ofsted's previous findings the Council have taken a forward looking approach by developing a series of formal strategies including those for addressing workforce issues in the department (Workforce Strategy) and care placement and budget issues (Sufficiency Strategy). Progress of these is monitored via the Corporate Parenting Board. The Council has also taken a retrospective look at the service via a 'deep dive' report taken to the Public Accounts Select Committee in March 23 which used detailed analysis to identify key cost drivers of the service with aim of taking targeted action going forwards to address these specifically.

Improving economy, efficiency and effectiveness (continued)

Ofsted's input is not limited to the Childrens' service at the Council but also spans schools under the Council's control and any partnerships it is part of that deliver services to children. The Council ensure that they are working towards high standards of childrens' care via these routes and specifically measure themselves against the expectations of Ofsted between inspections. The Council's KPIs within the performance dashboard include those in relation to the rating of schools against Ofsted principles. In quarter 4 of 2022/23 the Council has assessed that 97% of schools in the borough would be rated good or outstanding against a target of 96%. This ranks the borough 9th out of 162 authorities and demonstrates strong performance in this area.

In November 2022, a joint targeted unannounced inspection of Lewisham's Safeguarding Children Partnership (LSCP) which is a Council related partnership. The review was carried out by inspectors from Ofsted, the Care Quality Commission (CQC) and His Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS). The review found that the partnership's arrangements were well established and are becoming increasingly effective. It recognised the significant efforts that services have made to improve whilst working together to respond to the needs of children and families in the borough. It stated that "The partners know their services well and have an accurate understanding of the collective local and national challenges they face." This is deemed to be a positive reflection of the services being provided, of which the Council contributes to. The report was presented to the Children and Young People Select Committee of the Council in June 2023 and the committee were informed of the 8 key areas of improvements that were found across the partner agencies. As a result an agreed action plan was developed with the partner agencies to drive improvement.

The Local Authority's own actions will be monitored to ensure quality and timeliness, monthly in the Director's Management meeting and responsibility for the overarching partnership actions is with the Local Safeguarding Children's Partnership (LSCP) Executive which meets bi-monthly. A review of the action plan indicates that all are all areas are on track with 3/26 areas having already been completed and therefore progress to date is positive.

The Council took part in the Local Government Association (LGA) Peer Review which was reported in Nov 2021, we recommended in the prior year that developing an action plan from the findings of the review would be beneficial to monitor success of the response to the recommendations, with oversight from a relevant committee or Mayor and Cabinet. There is evidence that an action plan has been developed and is published publicly on the Council website. Each action within this plan has been allocated a Director or Executive Director to lead and so has accountability built into it.

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The Council has recorded progress against this action plan, and this has been shared with senior staff and Members internally, as well as with the LGA Peer Challenge Team. The LGA Peer Challenge Team re-visited Lewisham Council in January 2023, for a review of the progress made against the action plan. In their final feedback to the Council they stated "that the Council continues to be reflective and open to feedback" and "the Council has taken the peer team's recommendations from the full report seriously and made real progress in a number of areas. Therefore the Council has used the review positively to improve arrangements.

Modular Homes

The Council launched the Building for Lewisham (BfL) programme in January 2020 building on the previous New Homes Program and Lewisham Homes were the Council's direct delivery partner building new Council homes. The BfL programme adopted a mixture of construction methods to deliver the new homes. Based on the success of the award-winning temporary PLACE/Ladywell scheme the Council considered whether additional homes could be delivered through modern methods of construction (MMC), namely homes being built in a factory and then transported and assembled on site. Projects at Home Park in Lower Sydenham and Edward Street in Deptford were identified as appropriate sites for this type of build and a project for 65 homes via this method was initiated at an expected total project cost of £34m (including on costs and construction costs).

Following a competitive process, Caledonian Modular Ltd (CML) were selected as the main contractor for both projects in August 2020. Officers and members understood the contractor to be well established within the sector, and experts in this type of building method as the largest supplier of such homes in the UK. There was also evidence that the company had been used by other public sector bodies such a Her Majesty's Prisons (HMP) and the Ministry of Justice (MOJ).

Improving economy, efficiency and effectiveness (continued)

Work began on the project immediately, however in March 2022, when the project was 90% complete, CML announced they had been placed into administration and informed the Council works would not continue. Prior to the award of the contract the Council had undertaken due diligence arrangements including credit checks, but the information had not highlighted any issues at that stage. The company has cited issues at the sub-contractor level which impacted on the completion of the project and escalating costs. This suggests that the Council's due diligence arrangements should be reviewed and strengthened to ensure they capture information in relation to sub-contractors as well as the main contractor. In addition, ongoing financial and credit checks would have been beneficial in this instance to enable to the Council to take action at an earlier stage of the contract, with the caveat that the ability to do so would be dependent on break clauses and penalties in the contract (Recommendation 10).

High inflation and interest rates have also been highlighted as a causal factor and recent government statistics show there were over 2,000 company insolvencies in March 2023 – a 16% rise on the prior year, this is an issue that has impacted the sector as a whole and is not Lewisham specific.

At the approval stage of the contract risks were identified and considered by members, this included the risk of contractor insolvency. It has been noted from the evidence and discussion with officers that the nature of the project, including modern building method with a relatively new market, was considered riskier than a traditional home building approach. In response to this the Council included a performance bond within the contract which could be reclaimed in this instance. The value of the bond is £2.8m, which is approximately 8% of the total project cost. This seems comparatively low to the total build cost, particularly for a project noted as carrying a higher risk. As such the Council may seek to review its procurement and contract guidance to ensure that performance bonds are set at an appropriate level in each contract, reflective of the risk being entered into (Recommendation 10).

Following CML being placed into administration the Council have developed an action plan and undertaken regular briefings with members, as such the issue and ongoing work to respond has been well communicated to decision makers. Theses communications resulted in an options appraisal exercise which was presented to members in July 23. This explored options to terminate the project and write off costs to date, proceed with the project under the company taking over CML operations or proceed with a new contractor following another tender exercise.

The appraisal included cost benefit analysis, which confirmed that all would result in a loss or additional cost to the Council but officers recommended the option to terminate the project which was the option of least financial loss. Although all options have a negative impact it is felt that the option selected protects further use of public funding.

31 social homes on the Home Park site were to be funded within the HRA and 34 social/temporary accommodation homes on the Edward Street site within the General Fund, as such the termination of this project will impact both. The written off costs will be funded from general fund reserves and the HRA funding set aside for the project at its outset. The Council, as noted previously, does have a strong reserve position and can support this without significant detriment to services. However, this would not be sustainable, as reserves are finite in their use.

The Council is now seeking, in terminating the project, to explore methods of cost recovery which involve selling or repurposing the homes in their current state. To date this has had limited success, and the Council is incurring costs of storage in the current financial year. As such the Council has set a cut-off date at which it will dispose of the homes rather than continue to incur these costs. The final design of the modular homes included bespoke elements as approved by members, however these bespoke design choices have made selling the homes challenging as there is little to no market for them. We would recommend, to avoid future issues caused by bespoke designs, that the Council consider ways it can update it existing contract and procurement rules to deter decisions away from this type of designs where there is a risk these may hinder the Council's ability to recover costs should the project fail (Recommendation 10).

The Council has been working on a solution to the issues generated, as a result of this specific project, throughout 2022/23 and into 2023/24. Although there are no further modular build projects in the capital programme there are similarities in the processes of any capital, procurement and contract management exercise and therefore lessons could be learned, with the aim of not repeating any unavoidable factors that lead to the failure of this project. At the end of each project a project closure report is produced which allows lessons to be learned for future capital projects and is an element of good practice. We expect that this will be undertaken for this project once it is deemed complete, which will be when the homes are sold, repurposed or destroyed. This is expected by the end of 2023.

In summary, the Council approved a project that was riskier than its traditional housing development programme at a time when the economy was challenging, as such the risk of contractor insolvency was higher than usual. Although this was recognised the Council and planned for this was not sufficient. The inclusion of bespoke elements to the design also added additional risk associated with the exit strategy, now being observed.

Improving economy, efficiency and effectiveness (continued)

Due to the Council's strong reserves position to respond to the financial impact of the project failure, and the fact that there is no evidence to date of other such projects in the Council's portfolio there does not seem to be a systemic issue. However, the failure and the inability to maximise cost recovery of the scheme should serve as a warning to strengthen the consideration of risk within capital, contract and procurement decision making (Recommendation 10).

Lewisham Homes Transfer

Lewisham Council formally took over responsibility for managing and maintaining more than 19,000 homes across the borough, following the transfer of staff and services from Lewisham Homes, its wholly owned subsidiary, from the 1st October 2023. Initial options appraisal was considered by Mayor and Cabinet in July 2022, followed by extensive consultation with tenants between August and October 2022, before the final decision was approved in December 2022. Appropriate options appraisal, member approval and public consultation for the users of the service has been observed prior to bringing the service back. This included a cost benefit analysis of the options which showed that returning the service to the Council to be directly managed will save the HRA money after two years the savings would facilitate improvements to the housing services provided.

Prior to the decision being approved it had been noted, via a recent stock condition survey, that 2,400 homes within the Council's stock portfolio have been identified as suffering from some degree of damp or disrepair and therefore highlighting challenges by the company in fulfilling its role in maintaining properties to an appropriate quality. The aim of bringing housing management back into the Council is to improve it for residents by providing a more joined-up service, linking housing and other Council services that residents rely on. This was an outcome of the change in Government regulation following the Grenfell fire tragedy for Housing Arms Length Management Organisations (ALMOs) with new regulations in force which the Council is legally responsible for fulfilling. As such, there is a clear rationale for the decision to bring the company services back in house linked to achieving improvements in quality, cost savings and ensuring legal compliance.

With regards to the issues of damp and disrepair a Repairs Implementation Plan was developed between the Council and Lewisham Homes prior to transfer where the company committed to undertake a target of 1,000 MOT reviews to identify work needing completion to improve the condition of the housing stock. This was previously been monitored and measured by Lewisham Homes, but upon transition the plan remained in place. We have not observed this being reviewed or challenged via the Council governance arrangements due to the focus on transitional arrangements.

It is expected that the newly established Housing Transformation Board will revisit the plan to monitor performance shortly after the full transfer of services has been achieved. This should be a priority to ensure that quality issues that the plan is seeking to address do not 'fall through the cracks'. (Recommendation 11).

The Council has ensured that it is well prepared for the transfer of services and set up required governance arrangements in advance, immediately following the approval of the decision in December 2022. This has included setting up the new Place and Housing directorate and ensuring it includes the remit of Lewisham Homes activities. Budget setting and monitoring is undertaken at directorate level internally and this ensures that the Council's existing financial governance arrangements cover the newly transferred services. there is evidence of this directorate being monitored via budget monitoring reports at period 2 and 4 to date and our review of budget monitoring arrangements has shown they are effective. As such the Council already has greater oversight and control over financial performance of Lewisham Homes' activities compared to prior year where it relied on the company to provide this.

In terms of non-financial performance the Council has the newly developed Corporate Performance Report which includes KPIs under the Quality Housing priority. KPIs under this priority focus on housing delivery, planning applications and temporary accommodation numbers less focus on quality related metrics. Due to the fact that the Council has inherited challenges with damp and disrepair to address upon transfer we might expect KPIs to be related to housing quality metrics, in addition to the current performance information (Recommendation 11).

Communication is a vital element in ensuring a smooth transition of staff and services, and an area the Council has demonstrated extensive and robust arrangements in relation to, both pre-transition, during and post-transition. The level, frequency and engagement observed in the process has allowed for multiple opportunities for challenge and scrutiny of the process. Pre-transition there has been clear involvement and updates to tenants, members via Mayor and Cabinet and Full Council and the Housing Select Committee. During transition arrangements were managed by the newly created Housing Future Programme Board, in place from March 2023, to ensure that there are the right resources and plans in place to enable the transfer to move at the required place and meet the pre-agreed milestones for completion, as a phased approach has been taken. A clear governance structure of the Board was developed to ensure that resources were appropriately allocated to specific workstreams required to effectively bring different services and associated staff over from the company.

Improving economy, efficiency and effectiveness (continued)

In order for the Council to be able to absorb the housing services functions Mayor and Cabinet approved the establishment of up to five new Council posts to help deliver the project, as a result of the work of the Board. This Board has been supported by a steering group which has been able to feedback on challenges and successes to be incorporated at each phase of the transition.

The Board have effectively managed the transition via a specific risk register, a highlight report on RAG rated progress of each workstream and an actions and decisions log. By June 2023 none of the 6 workstreams were rated as red and all workstreams related to finance and communications were rated green as completed. The reporting, overall, shows that the transfer of Finance ahead of other services was successful and therefore appropriate to use as guidance for the remainder of transferring services.

The Housing Transformation Board (HTB) has been in place since the integration took place on 1st October and ensures there is a clear split of responsibilities, between transition and integration, and therefore has a different remit from the Housing Futures Board. The HTB had its first meeting upon completion of the transfer on 12th October and so the arrangements that were set up were able to be mobilised and effective immediately. It will be the responsibility for this Board collate performance information from housing directors of the service and feedback to the chair (Chief Executive) to ensure that there is sufficient focus on this area of operations, a direct response to the challenges faced previously.

The Council has demonstrated commitment to consistently identifying and applying lessons learned throughout the process. It planned a phased approach to the transfer with the Development Service being the first team to transfer in February 2023, followed by Finance in May 2023 and the remainder of teams by October 2023. This has allowed various touch points with which to assess success and make iterative adaptations as required, as well as using the newly transferred team to support those transferring at a later date and assisting with the embedding of Council processes. Training has been provided before, during and after transferring which has been well supported by a specific communication work strand within HR to ensure the transition is managed seamlessly. The Housing Futures Programme Board has been key in managing the process by receiving project reports from each project manager responsible for each workstream every two weeks, these included lesson learned. In addition, following the transition of the Finance team in May 2023 a formal exercise was undertaken to capture lesson learned in totality.

Overall there is evidence of strong governance structures and adequate resources in place to manage this transition. Implementation plans were developed and tested and lessons learned exercise helped shaped the next phase. The transformation phase is in its infancy and therefore there is limited evidence to assess how well the new arrangements have embedded, this will be a focus for 2023/24.

Conclusion

Overall, although we have identified areas for improvement in arrangements, these represent actions to be taken to ensure best practice in ensuring resources are managed effectively and do not represent a weakness in current arrangements. However the collapse of a housing contractor working with the Council should serve as a warning to strengthen procurement and contract management processes, particularly in considering potential risk, to avoid future situations of this nature. The Council's arrangements, where unchanged from prior year, remain fit for purpose and improvements have been evidenced since the prior year, therefore demonstrating a positive direction of travel.

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 8	The Council continue its ongoing commitment to improving non-financial performance reporting via the Corporate Performance Report and dashboard by: • where within the Council's control' ensuring each KPI has a target to gauge performance against • reducing the time lag in information being reported to ensure reliable decisions can be made using the information • ensuring a clear owner for each KPI is identified to aid accountability where performance is below target • continuing to present the information formally to members and consider doing so alongside financial reporting so that decisions in relation to non-financial performance can the financial impact assessed concurrently • ensuring consistency of directorate level metrics with the council wide priorities and KPIs to ensure directorate level activity contributes to council wide improvement and objectives as opposed to working in silo
Summary findings	In 2022/23 the Council has developed a centralised online dashboard for monitoring non-financial performance metrics and this is made available publicly via the website, after oversight and approval by members. The tool is in continual development and is expected to evolve, as such the current version is not a finished product and provides the opportunity for further refinement. At the time of undertaking our review in October 2023 quarter 3 data for performance was being reported externally and therefore a 10 month time-lag, within this some information for individual targets is also outdated and from 202/21 and 2021/22 in some instances. Quarter 4 data has been collated and presented to Mayor and Cabinet in September 2023, it was approved and expected to be uploaded into the public dashboard imminently. Although the time-lag is reducing this still limits the benefit of the data to decision makers. Observation of the tool has also noted that not all metrics include a target level or a clear owner for each KPI which could aid accountability. Individual directorates continue to have their own performance management metrics, which are reported in the Directorate Management Reports internally, but these are not necessarily linked to corporate priorities as the Council-wide KPIs are.
Management comments	XXX

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Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 9	The Council should ensure there is regular oversight by members of the mitigation plan, currently in development, to respond to the overspends in Education Services and the DSG deficit, as a stand lone item or via inclusion within the newly developed KPI reporting, to ensure that the embedding of actions can be progressed. In order to ensure KPI reporting within the Corporate Performance Report is most effective in monitoring the cost drivers within Education Services the Council should consider including metrics focus on these as well as education outcomes.
Summary findings	The Education Service is currently working towards a mitigation plan with the Department for Education (DfE) as part of the Delivering Better Value support package, to focus on reducing costs whilst maintaining service quality. This is in development and time lag is expected before the actions are fully embedded and able to impact the current high costs effectively. Currently, the KPIs within the Corporate Performance Report focus on education outcomes, which are important, however the cost drivers are not considered.
Management comments	XXX

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 10	The recent failure of the modular home project at Home Park and Edward Street the Council should serve as a warning for the Council to strengthen the consideration of risk within capital, contract and procurement decision making, specifically the Council should: • Review and strengthen due diligence arrangements at the initial stages of contract procurement to ensure they capture information in relation to key sub-contractors as well as the main contractor. • Ensure ongoing financial and credit checks take place at key points in the contract to enable the Council to take action at an earlier stage of the contract should there be evidence of financial difficulty of a contractor, with the caveat that the ability to do so would be dependent on break clauses and penalties in the contract. • Review procurement and contract guidance to ensure that performance bonds, or other forms of security, penalty or remediation, are set at an appropriate level in each contract, reflective of the risk being entered into. • Review its existing contract and procurement procedures such that the consideration of bespoke designs is made alongside the wider considerations of contingencies in the event that the project were to fail and the Council need to act to recover costs/remediate.
Summary findings	Following a competitive process, Caledonian Modular Ltd (CML) were selected as the main contractor for the modular build projects at Home Park and Edward Street in August 2020. The homes used modern construction methods and were seen to carry a higher level of risk than traditional builds due to this being a developing market. Members approved the plans based on due diligence, including credit checks, and evidence of similar builds under the same company at other public sector bodies. The decision was made, and the project initiated, during a time of economic downturn and financial challenge nationally as a result of the pandemic. As such the contractor was placed into administration in March 2022 due to the impact of rising interest rates, inflation and sub-contractor issues. The Council has undertaken option appraisal to determine the next steps for the project, which was 90% complete when the failure occurred. Analysis and consultation with officers has determined the preferred course of action to be to terminate the project, write off the costs to date and recover costs, where possible. To date recovering costs has been unsuccessful as the Council has been unable to sell or repurpose the homes due to their bespoke design. The Council is currently storing the homes, at a cost, and therefore should they be unsuccessful in selling or repurposing the homes they will be disposed of by the end of 2023 to limit the ongoing additional costs to the Council.
Management comments	XXX

Improvement recommendations – Improving economy, efficiency and effectiveness

Improvement Recommendation 11	Upon the transfer back in-house of housing management and maintenance services from Lewisham Homes Ltd the Council should ensure that it has adequate arrangements in place to respond to and monitor issues that it will be inheriting upon transfer, relating to the 2,400 homes considered to have damp and disrepair issues. Specifically the Council will need to ensure that the legacy Repairs Implementation Plan is effectively monitored through relevant governance arrangements, such as the Housing Transformation Board, and that the Council's KPI's within the Corporate Performance Report and Dashboard are reviewed to include metrics relevant to required repairs.
Summary findings	Prior to the decision to transfer Lewisham Homes services in-house being approved it had been noted, via a recent stock condition survey, that 2,400 homes within the Council's stock portfolio have been identified as suffering from some degree of damp or disrepair. A Repairs Implementation Plan was developed between the Council and Lewisham Homes prior to transfer where the company committed to undertake a target of 1,000 MOT reviews to identify work needing completion to improve the condition of the housing stock. This was previously been monitored and measured by Lewisham Homes but upon transition the plan remained in place but we have not observed this being reviewed or challenged via the Council governance arrangements due to the focus on transitional arrangements. It is expected that the newly established Housing Transformation Board will revisit the plan to monitor performance shortly after the full transfer of services has been achieved.
Management comments	XXX

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
1	Financial Sustainability - Budget monitoring reports should clearly articulate the underlying causes for the under delivery of savings plans. Actions taken to address under delivery or proposed alternative plans should also be detailed within the report.	20/21	Improvement	Budget monitoring includes an appendix on savings which includes each scheme RAG rated with comments. Section 5 of each report also focuses on savings by directorate and service, this includes detailed narrative, focussed on under delivering services, as to the causal factors. There is limited information on actions taken and the Director of Finance plans to revise the reporting of savings in 2023/24 to focus more on actions taken on the savings schemes in year and move away from a focus on prior year savings undelivered.	Yes	No
2	Financial Sustainability - Given the uncertainty of the pandemic and current economic environment a routine re-profiling of the capital programme would be required. This needs to be complemented by detailed reporting on a scheme by scheme basis with detailed explanations explaining slippage that will assist with holding delivery managers to account for meeting project timescales.	20/21	Improvement	This has been undertaken in July 23 as confirmed in the Period 2 and Period 4 23/24 budget monitoring.	Yes	No

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
3	Financial Sustainability - In the continued efforts to improve savings performance against target the Council should explore ways to: 1. encourage focused discussion by the Public Accounts Select Committee (PASC) on specifically under delivering savings schemes in 22/23 2. undertake public consultation on the savings programme 3. learn from successfully delivered schemes via post implementation reviews. 4. savings under-delivery historically has been attributed to the Communities Directorate Adult Social Care Team and therefore Finance Officers should work directly with that team, in a targeted and collaborative manner, to focus on specific savings that can be generated from high unit cost services within this directorate that are not currently being addressed 5. focus on identifying recurring savings which can impact each of the 4 years of the medium-term financial plan	21/22	Improvement	1. March 2023 paper to PASC focussed on Childrens' Social Care via a deep dive exercise into the causes of overspends and savings under-delivery. This deep dive approach is a positive improvement that the Council may wish to extend to Adult Social Care and Temporary Accommodation, which are the most significantly overspending areas in 2022/23 2. There is still limited saving specific information included within the public consultation on the budget, however the format is more open in questioning to allow for comments as required. The detailed savings and budget for 2023/24 were submitted for pre-scrutiny in public meetings in December and January before being moved for decision and therefore do provide the opportunity for public questions. More could be done to gain specific feedback on savings proposal. Given the continual roll forward nature of undelivered savings, a new approach which includes service user input may be of benefit. 3. Progress with delivery of savings is included in the monthly monitoring to Executive Management Team (EMT) and quarterly to members. This includes key performance data for cost drivers. The narrative on exceptions in the monitoring is also changing to include an assessment of risk and planned actions but this has yet to be achieved in 2022/23 4. Service planning for 2023/24, which commenced in March and April 23, focusses on relevant benchmarks and performance indicators to track planned actions. This was not achieved in 2022/23. 5. The MTFP for 2023/24 and 2024/25 still include identified savings predominantly for the first year of the MTFP with some in the second, none for the remainder. We are aware from the 2024/25 documentation that, due to the fact that 2024/25 is currently a balanced budget, that attention is now being turned to multi-year savings	Yes	Superseded by recommendations 2 and 3

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
4	Financial Sustainability - The Council should develop a Workforce Plan or Strategy covering all aspects of the future workforce required for the Council to fulfil its priorities and that the Council align this framework to the existing 22/23 budget, future budgets and MTFP to ensure they're complementary of one another. This will ensure that the future establishment is affordable and Council priorities are met within budget constraints.	21/22	Improvement	The Service Planning template has been updated and the guidance for managers has been strengthened to include reference to workforce. Strategic HR Business Partners have been meeting with service directors to support this aspect of their planning using workforce metrics aligned to budgetary position/savings targets. This is informal and a step in the right direction. However, a formalised workforce strategy and supporting plan would be beneficial to plan the medium term outlook of the establishment based on planned service delivery and determine that it is affordable, decisions can therefore be made in advance of need in an area that represents one of the largest costs to the Council Discussion with the Chief Executive has also confirmed that the Council, in 2023/24, is aiming to develop a live staff directory which will improve the accuracy of the information held on the people within the organisation, enabling decisions to be made in relation to workforce more reliably.	Yes	No – being addressed in 23/24.
5	Financial Sustainability - Overall the Council's arrangements to secure financial sustainability are appropriate, the Council may wish explore ways that it can make iterative improvements to demonstrate best practice financial arrangements. These could include developing actions that could be taken, at a high level, to respond should that 'worst case' scenario included in the MTFP should it occur and communicating this to members. This will ensure that the Council can respond in a timely manner should any aspects of that scenario materialise.	21/22	Improvement	The Council has continued to update the MTFS and this includes planning for 3 scenarios, including a worst case. The budget gap under the main case has improved between 2023/24 MTFS and 2024/25 MTFS which demonstrates the ongoing work to tackle medium term pressures. Risks, quantified and unquantifiable, are included in the budget and monitored via the budget monitoring reports to assess if they are emerging. The Council has not specifically detailed the actions taken against the worst case scenario, but risks to the budget are made clear in the documentation and the actions being taken to respond to them are having the desired impact.	Yes	No

Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
6	Governance - Overall the Council's governance arrangements are strong and operating consistently in line with Council policies. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice governance arrangements. These could include: 1. Updating financial monitoring reports to include details of actions being taken on overspending services throughout the year. 2. Ensuring that presentation of financial performance to Mayor and Cabinet is sufficiently regular 3. Undertaking effectiveness reviews of their committees to ensure that they are performing effectively against their terms of reference 4. Incorporating assessments of financial performance into the appraisals of budget holders 5. Investigating ways of increasing feedback response to consultations exercises 6. Ensuring that Members are sighted in the lessons learned from the Financial Software IT Critical Incident.	22/23	Improvement	1. Reporting of risks has improved within the budget monitoring reports to demonstrate actions being taken to control them, whether quantified or unquantified. In addition 'deep dive' work has been done in Childrens' Social Care. This is focussed on causes rather than actions. 2. Performance is presented on a quarterly basis to Mayor and Cabinet and this is deemed sufficient based on common practice in the sector. Prior to the meeting of the Mayor and Cabinet performance is sighted by EMT and Public Accounts Select Committee to ensure that there is a good level of scrutiny and discussion. There is also more informal discussion at Budget Review Meetings between the Director of Finance and Directorate leads, which take place monthly. 3. There is no evidence of these having taken place in 2022/23 4. Staff appraisal forms now include fields for identifying actions being taken and potential improvements that could be made in meeting key objectives. Management agreed to review the guidance to assess the benefit of being more specific on financial management, to supplement the detailed expectations set out in the financial regulations and procedures. The 2023/24 appraisal cycle is therefore going to include fields to capture people management and finance & equalities (where applicable). The appraisal guidance and training will be updated to make clear expectations. Therefore, the recommendation has not been responded to in the 2022/23 year, however this was made in December 2022 therefore allowing for limited time with which to action this in 2022/23.	Partially	To be reviewed again in 2024/25 by incoming auditors

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
6	Governance recommendation 6 (continued)	22/23	Improvement	5. The Council promotes e-Participation through its online engagement system, which provides a platform for citizens to respond to online consultations, as well as e-Petitions. This ensures easy access to respond to consultations. Each consultation advertised also includes contact details should online consultations not be accessible for residents. Consultations in year cover a range of areas from budget to childrens' services to Borough of Culture exit. Therefore, there are multiple areas and opportunities for people to have their say. There is limited data with which to judge the actual response rates. 6. Per our prior year work the incident occurred in the 2022/23 year, Oracle temporarily removing the service they provided from the 6th May 22. There was ongoing informal communication with members until resolution of the incident in June 2022. However no formal communication, or lessons learned information, has been presented to members via relevant committees in 2022/23 to ensure that similar incidents do not reoccur, therefore the recommendation has not been addressed.		
7	Governance - The Council should continually review its risk management procedures to ensure they remain effective and fit for purpose. This could include: 1. Ensuring that there is a greater level of oversight of the strategic risks impacting the Council by Mayor and Cabinet 2. Updating the format of the strategic risk register 3. Working collaboratively with Internal Audit to ensure that the 2022/23 audit plan is achievable within the time and resource available 4. Tracking progress against the Quality Improvement Plan developed by Internal Audit	21/22	Improvement	The Council has implemented a new Risk Management Strategy for 2023-2027 which has changed the way risks are reported, changes have come into place from quarter 4 and are continuing to be made iteratively, therefore ongoing review is expected. 1. The newly updated strategy does include the provision that there is biannual reporting to the Mayor and Cabinet of the highest risks, this is an additional layer of review compared to prior year. Strategy was taken to Audit Panel in March 23 and therefore was not in place throughout 2022/23, it was initially approved by Executive Management Team in November 22.	Yes	No

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
7	Governance recommendation 7 (continued)	22/23	Improvement	2. Quarters 1-3 risk register was presented to the Audit Panel in the old format with quarter 4 using an interim format. The Council has invested in bespoke risk management software which is currently being 'built out' to maximise its benefit to decision makers. In the meantime the Council is presenting both formats of risk register to limit gaps in data as this takes place. We have reviewed the latest risk registers and have made more specific recommendations compared to prior year, but do note improvements in the information and capabilities of the new software. 3. Internal Audit completed 50 reviews in 2022/23, of which 19 related to 2021/22 and effectively cleared the backlog of their unachieved plan from the prior year. 8 reviews were outstanding at the point of releasing the year end Head of Internal Audit Opinion and Annual Report for 2022/23 but all had been released to management in draft form and were awaiting comments, being finalised in June 23. 15 reviews were removed from the plan, 6 due to Internal Audit capacity. However, performance is significantly improved and sufficient assurance available for Internal Audit to provide their year end opinion. 4. No evidence of this being reported as part of progress reports and therefore could still be improved as long as the plan remains in place. However, as noted, improvements have been made in terms if plan delivery and so actions are clearly being taken and having a positive impact.		
8	3E's - The Council should explore ways to ensure the maximum benefit is achieved from the non-financial reporting of the Council's directorates. This could be achieved via increased oversight of the non-financial KPI performance of the Council's services and directorates by Members and introducing benchmarking into all directorate KPI reports. The Council would benefit from a Council wide benchmarking strategy as opposed to an ad-hoc approach.	21/22	Improvement	The Council have developed an interactive Power BI dashboard to monitor KPIs linked to corporate priorities. In June 2023 the quarter 3 2022 performance information was published and quarter 4 in September 2023, following approval by Mayor and Cabinet. There is still no benchmarking included within this reporting or dashboard and therefore in later iterations this could be considered.	Partially	To be reviewed again in 2024/25 by incoming auditors

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
9	3E's - Overall the Council's arrangements for securing economy, effectiveness and efficiency are positive. The Council may wish to explore ways that it can make iterative improvements to demonstrate best practice in these arrangements. These could include: 1. Developing can action plan form the findings of the LGA Peer Review to monitor success of the response to the recommendations with oversight from a relevant committee or Mayor and Cabinet. There may be scope to incorporate the finding into existing KPI reporting as those structures are already in place 2. Ensuring that a data policy is finalised as soon as possible. 3. Identifying how the existing governance arrangements can support delivery of the digital programme, once the 2023 Digital Strategy is developed and released. 4. Exploring ways that equal attention could be paid to monitoring the performance of both its key subsidiaries.	21/22	Improvement	1. An action plan has been developed and is published publicly on the Council website. Each action within this plan has been allocated a Director or Executive Director to lead. The Council has recorded progress against this action plan, and this has been shared with senior staff and Members internally, as well as with the LGA Peer Challenge Team. The LGA Peer Challenge Team re-visited Lewisham Council in January 2023, for a review of the progress made against the action plan. In their final feedback to the Council they stated "that the Council continues to be reflective and open to feedback" and "the Council has taken the peer team's recommendations from the full report seriously and made real progress in a number of areas." The final summary letter from the LGA Peer Challenge Team has been published on the Council website for transparency. Progress against the action plan will continue to be monitored. 2. The Council is currently working on a draft Data Policy that seeks to embed the principles of data accuracy, integrity and ownership across the Council; the principle aim being effective use of data to inform better decision making. At present, the Data and Insights team have led a series of data workshops over the last 6/7 weeks to feed into the development of the Data Strategy, working with analysts, directors across the different services across the Council.	Partially	To be reviewed again in 2024/25 by incoming auditors

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Follow-up of previous recommendations

	Recommendation	Year	Type of recommendation	Progress to date	Addressed?	Further action?
9	3E's recommendation 9 (continued)	21/22	Improvement	3. The strategy is yet to launch but when launched is the Council's intention that delivery will be reported through the Strategic Change Board, chaired by the Chief Executive which monitors the delivery of key projects across the Council. The IT & Digital Team have already set up a Technical Design Authority (TDA) that reviews, assesses and critically challenges new IT & Digital projects across the Council to ensure the solution proposed is the best approach for the service and the requirements can't be met by existing digital solutions in place. The TDA compromises of Shared Technology Service, leads from Applications, Digital and Information Governance. These have not yet been able to be evidenced as the strategy has not yet launched but the planned approach is deemed to be robust 4. The Council will be insourcing Lewisham Homes, transfer to be complete by 1 October 2023, with some functions being brought back into the Council in advance of that date. The development function was transferred in February 2023, and offers opportunities to reduce duplication of tasks. Lewisham Homes performance monitoring in its current state is superseded as a result and the financial performance will be subsumed into the Council's existing budget and budget monitoring as it becomes part of the Council's functions. In terms of non-financial performance, the newly created KPI dashboard does include KPIs under the Quality Housing priority. Metrics include net additional quality homes provided and temporary accommodation numbers, which are relevant to the services being brought back in house, as such we feel existing arrangements are suitable to ensure ongoing performance review of the service once transferred. Catford Regeneration Partnership performance as a company is not included in the same way as Lewisham Homes but there are Catford specific capital projects included in the capital monitoring and therefore demonstrates the company is providing sufficient information for the Council to monitor progress within their own reporting structure.		

Opinion on the financial statements

Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2023 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

We conducted our audit in accordance with:

- International Standards on Auditing (UK)
- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

Audit opinion on the financial statements

We anticipate issuing an unqualified opinion on the Council's financial statements in November 2023.

Audit Findings Report

More detailed findings can be found in our AFR, which will be reported to the Council's Audit and Standards Committee in November 2023.

Whole of Government Accounts

To support the audit of the Whole of Government Accounts, we are required to examine and report on the consistency of the Council's consolidation schedules with their audited financial statements. This work includes performing specified procedures under group audit instructions issued by the National Audit Office. This work will be completed following the audit of the financial statements.

Appendices

Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

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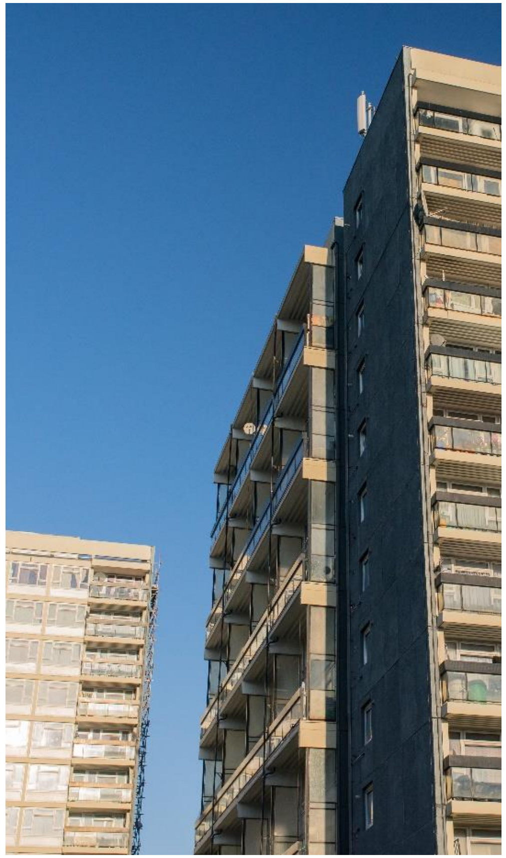
The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

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



Appendix B: An explanatory note on recommendations

A range of different recommendations can be raised by the Council's auditors as follows:

Type of recommendation	Background	Raised within this report	Page reference(s)
Statutory	Written recommendations to the Council under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014.	No	N/A
Key	The NAO Code of Audit Practice requires that where auditors identify significant weaknesses as part of the Council's arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the Council. We have defined these recommendations as 'key recommendations'.	No	N/A
Improvement	These recommendations, if implemented, should improve the arrangements in place at the Council, but are not a result of identifying significant weaknesses in the Council's arrangements.	Yes	See relevant sections proceeding Financial Sustainability, Governance and 3E's narrative

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Agenda Item 4

Audit & Risk Committee

Internal Audit Update December 2023

Date: 6 December 2023

Key decision: No

Class: Part 1, with Part 2 Appendix

Wards affected: All.

Contributors: Rich Clarke, Head of Assurance

Outline and recommendations

The report summarises findings and progress up to 27 November in delivering the 2023/24 internal audit plan. It also updates Members on the wider context of the internal audit profession and the team at Lewisham, including work to incorporate the audit team and programme of Lewisham Homes. The report also incorporates additional information on counter fraud cases, as a Part 2 Appendix.

We ask that Members **note** the report.

Timeline of engagement and decision-making

14 March 2023: Internal Audit plan for 2023/24 approved by Audit Panel.
13 September 2023: Interim update to Audit & Risk Committee

We have additionally reported progress on the plan and individual audits to Directorates and the officer-led Corporate Assurance Board.

It is recommended that under Section 100 (A)(4) of the Local Government Act 1972, the public be excluded from the meeting during discussion of appendix A of this item because it involves the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of part 1 of Schedule 12A of the Act as set out below and the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The reasons for this recommendation, with paragraph numbers in reference to Appendix 1 of the Council's Constitution, are:

(2) Information which is likely to reveal the identity of an individual.
(3) Information relating to the financial or business affairs of any particular person (including the authority holding that information)
(5) Information in respect of which claim to legal professional privilege could be maintained in legal proceedings, and
(7) Information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of crime.

1. Summary

1.1. The report provides an update on progress towards completing the 2023/24 Internal Audit Plan approved by Members' in March this year. This now includes reporting on 2023/24 audit work originally agreed by Lewisham Homes' Audit Committee as part of its internal audit plan for the year, now incorporated into Lewisham Council's internal audit arrangements.

1.2. There are no findings of individual concern yet arising from our 2023/24 work; all published reports to date have received positive assurance conclusions. Although progress has been slower than hoped, owing to sickness absence within the team and work incorporating Lewisham Homes, we are confident of holding sufficient resource to deliver a robust year end opinion. The report sets out a schedule for completing the remaining audit work on the plan.

1.3. We continue work following up agreed audit actions arising from reports. The Council's record on taking actions on time continues to improve, although a handful of overdue high priority actions remain. We are continuing to work through actions inherited from Lewisham Homes' audit work and will include this information in subsequent updates to the Committee.

1.4. The report also includes a brief summary of updates in both the Lewisham Council audit team and the wider context of the internal audit profession. Finally, the report also includes a collection of illustrative case studies providing some insight beneath the numbers into the work of the Anti-Fraud and Corruption Team, presented as a Part 2 Appendix.

2. Recommendations

2.1. The Audit & Risk Committee **notes** the report.

3. Policy Context

3.1. This report aligns with Lewisham's Corporate Priorities, as set out in the Council's [Corporate Strategy (2022-2026)]:

- Cleaner and Greener
- A Strong Local Economy
- Quality Housing
- Children and Young People
- Safer Communities
- Open Lewisham
- Health and Wellbeing

3.2. This report aligns to all priorities through its role in supporting good governance.

4. Background

4.1. The Council's internal audit service is delivered principally by an in-house team which now (post Lewisham Homes reintegration) comprises 7.4 full-time equivalent officers. This includes four fully-qualified staff plus three apprentices, two of whom we recruited in September 2022 through a pan-London scheme in co-operation with five other Boroughs.

4.2. This team is supplemented by some bought-in audit work on areas of technical speciality plus more general audit suppor inherited from Lewisham Homes.

4.3. All the Council's audit work is conducted in line with the Public Sector Internal Audit Standards (PSIAS) as directed by the Accounts and Audit Regulations 2015. We verified our adherence to the Standards through an External Quality Assessment reported to Members in June 2022.

5. Internal Audit Service Update

Progressing 2023/24 Audit Plan

5.1. The table on the following page summarises progress, including outcomes of engagements completed and reported up to 27 November 2023. The year has started more slowly than planned, in part because of additional time to incorporate Lewisham Homes plus sickness absence in the audit team. Nevertheless, we are confident of completing work sufficient to provide a robust year end opinion, and the table also sets out a summary of that planned work.

5.2. This update also includes information about the audit plan approved by Lewisham Homes' Audit Committee in March 2023. That Committee's papers were not public and so we have not included this information in previous updates but it was shared with the Council's Head of Assurance to consider when planning the Council's work for the year.

Internal Audit Team Update

5.3. In October 2023 the Council welcomed two new colleagues from Lewisham Homes: and Audit & Risk Manager and Audit & Risk Officer. Both have been accommodated direct into our existing structure and are working alongside the existing Council internal audit service. The Council also inherited Lewisham Homes' audit support contract with the private firm TIAA, who are tasked with delivering all the individual audit engagements on Lewisham Homes' plan. That contract expires at the end of 2023/24 and we are currently investigating options for continuing access to similar expertise and support into 2024/25.

Updated Professional Standards

5.4. In March 2023 the Global Institute of Internal Audit (IIA) launched a consultation on completely revised Standards for the profession. That consultation is now closed and the IIA has announced publication of new Standards in early 2024, to come into force 12 months later. The UK's Internal Audit Standards Advisory Board (IASAB), which includes Lewisham's Head of Assurance as the local government representative, will begin work early in the year on revised Public Sector Internal Audit Standards based on the new Global Standards. We would be happy to present a paper to Members in 2024 on the new Standards and their implications for Lewisham's audit arrangements.

Internal Audit Engagements 2023/24

Ref	Title	Finding Summary	Assurance Rating	Report Date	Note Para
2023/24 Completed Audit Engagements (x8)					
23/24-LH-01	Rent Collection & Arrears Management	(None)	**Substantial**	15-Jul-23	
23/24-CE-01/2	Supporting Families Grant (Q1/Q2)	(None)	**Grant Certified**	20-Sep-23	
23/24-LH-03	Property Compliance (Gas & Lifts)	2 x Med, 5 x Low	**Satisfactory**	6-Oct-23	
23/24-LH-04	Safeguarding (Lewisham Homes)	1 x Med, 1 x Low	**Satisfactory**	27-Oct-23	
23/24-RBE-13	Sports & Leisure Contracts	1 x Med, 5 x Low	**Satisfactory**	22-Nov-23	
23/24-SCH-03	Adamsrill Primary School	11 x Low	**Substantial**	22-Nov-23	
23/24-RBE-21	Budget Setting & Savings Targets	2 x Med, 2 x Low	**Satisfactory**	23-Nov-23	
23/24-RBE-06	School Place Planning	2 x Med, 3 x Low	**Satisfactory**	27-Nov-23	

All final reports published so far against 2023/24 internal audit plans have concluded with positive assurance.

The tables below set out the remainder of work included in approved audit plans. Engagements with a code containing ‘LH’ were part of the audit plan approved by Lewisham Homes’ Audit Committee. The remainder were part of Lewisham Council’s plan approved by Members of the Audit Panel in March 2023. All audit engagements are scheduled to the Council’s in-house internal audit team except those with an ‘LH’ code, or where otherwise indicated.

In each chart, the dark highlighted boxes indicate progress up to 27 November 2023, with light highlights show further steps planned.

Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
2023/24 In-Progress Audit Engagements expected to report to Members in March 2024 (x24)							
23/24-CON-01	Children’s Social Care Assurance Mapping						
23/24-CON-02	Adult Social Care Assurance Mapping						
23/24-CON-03	IT Network Security Assurance Mapping						
23/24-LH-05	Asset Management (Lewisham Homes)						
23/24-LH-06	Repairs Service - Disrepair						

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Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
23/24-RBE-02	Corporate Communications						
23/24-RBE-04	Staff Performance Management						
23/24-RBE-07	Schools HR Services						
23/24-RBE-08	Virtual School						
23/24-RBE-10	Access & Inclusion						
23/24-RBE-11	Licensing (Alcohol & Gambling)						
23/24-RBE-12	Tree Maintenance						
23/24-RBE-14	Community Development						
23/24-RBE-15	Accounts Receivable						
23/24-RBE-20	Accounts Payable						

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Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
23/24-RBE-24	Apprenticeships						
23/24-RBE-25	Planning Application Management						
23/24-RBE-28	Street Cleansing						
23/24-RBE-30	Flood Management						
23/24-RBE-31	Housing Delivery Programme						
23/24-SCH-04	Edmund Waller Primary School						
23/24-SCH-05	Holbeach Primary School						
23/24-SCH-10	St Saviour's Primary School						
23/24-SCH-15	Stillness Junior School						

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Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
2023/24 Audit Engagements scheduled but not started, expect to report to Members in June 2024 (x19)							
23/24-CE-01/2	Supporting Families Grant (Q3/Q4)						
23/24-LH-07	Tenancy Management Organisations						
23/24-LH-08	Tenant Voice New Tenant Satisfaction Measures						
23/24-RBE-01	Starters & Leavers						
23/24-RBE-03	Resilience Planning						
23/24-RBE-05	Statutory Enquiries (FoI, SAR)						
23/24-RBE-09	Education and Healthcare Plans						
23/24-RBE-16	Facilities Management						
23/24-RBE-17	Insurance Claim Management						

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Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
23/24-RBE-18	Corporate Performance Management						
23/24-RBE-19	Registrar Office						
23/24-RBE-22	IT Support						
23/24-RBE-23	Parking Enforcement						
23/24-RBE-26	Highways Management						
23/24-RBE-29	Building Control						
23/24-SCH-02	Marvels Lane Primary School						
23/24-SCH-11	St Bartholomew’s Primary School						
23/24-SCH-13	St James Hatcham Primary School						
23/24-SCH-14	Holy Trinity CE Primary School						

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Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
2023/24 School Audit Engagements scheduled for summer term 2024, expected report to Members in September 2024 (x6)							
23/24-SCH-01	Watergate School						
23/24-SCH-06	Kilmorie Primary School						
23/24-SCH-07	St Michael’s CE Primary School						
23/24-SCH-08	Sydenham Secondary School						
23/24-SCH-09	Brindishe Federation Schools						
23/24-SCH-12	Ashmead Primary School						
2023/24 Audit Engagements part of approved plans but subsequently cancelled (x3)							
23/24-LH-02	Budgetary Control (Lewisham Homes)	Engagement cancelled from Lewisham Homes’ plan as not relevant to merged organisation. TIAA resource redirected to 23/24-RBE-20: Accounts Payable					

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Go to https://lewisham.gov.uk/contact-us/send-us-feedback-on-our-reports

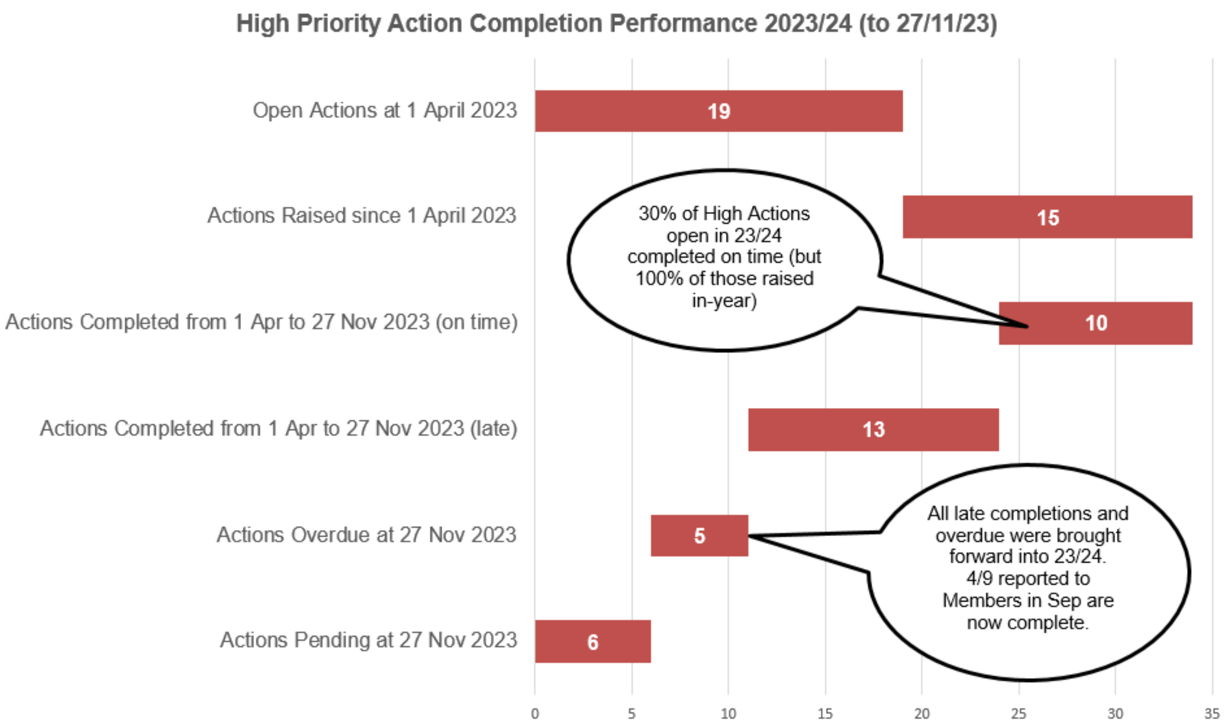
Ref	Title	Assigned	Planning	Fieldwork	Reporting	A&RC 6 March	A&RC June 2024
23/24-LH-09	Core Financial Systems	Engagement cancelled from Lewisham Homes' plan as not relevant to merged organisation. TIAA resource redirected to 23/24-RBE-15: Accounts Receivable					
23/24-LH-10	Risk Management Assurance Mapping	Engagement cancelled from Lewisham Homes' plan as not relevant to merged organisation. TIAA resource redirected to 23/24-RBE-17: Insurance Claims					

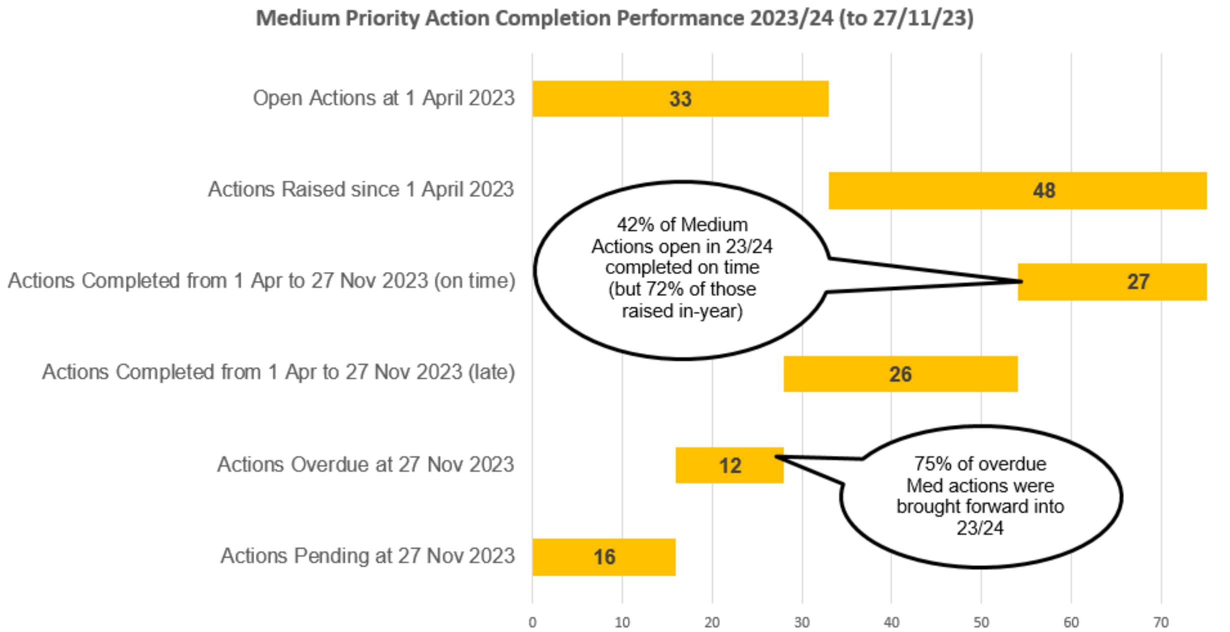
All the cancelled engagements were on the Lewisham Homes plan originally. The decision to cancel stems from the audit topic no longer being relevant in the larger organisation, often because the proposed audit topic wholly or partly duplicates one already selected for review in the Council's internal audit plan. In each instance TIAA have agreed to redirect the planned resource to complete an alternative engagement from the Council's internal audit plan.

Currently, we are planning to complete all corporate engagements on the approved audit plan in time to support the Head of Internal Audit Annual opinion scheduled for late May 2024. This is except for half a dozen school audits where we have, sometimes at request of the school, sought to schedule the work to take place in the summer term 2024. We will report on these remaining audit engagements at the next opportunity after providing the annual opinion.

6. Agreed Actions Follow-Up

6.1. An important part of how internal audit seeks to drive governance improvements is through agreeing remedial actions to address audit engagement findings. The charts below describe the current (to 27 November) performance in implementing high and medium priority actions (we only follow-up low priority actions when revisiting the same area in a subsequent audit engagement). The numbers below include some actions reported complete pending the verification work we typically undertake for high priority actions.





6.2. In September, we reported to Members on a persistent set of overdue actions that continue to impact performance which, otherwise, continues to improve. Looking only at ‘current’ actions, completion rates continue to improve – from 54% to 72% for medium priority and remaining at 100% for high priority actions.

6.3. The tables below provide specific additional detail on overdue actions. Where the action also featured in September reporting to Members, we have highlighted and included extra commentary provided by the responsible service where high priority actions are still pending or current due dates on medium priority actions have changed.

High Priority Actions Overdue (x5)

<table>
<tr><th>Audit Title & Report Date</th><th>Action Summary</th><th>Original and current due dates</th></tr>
<tr><td>VAT
6-Jul-21</td><td>Review partial exemption calculation for years from 2017/18</td><td>31-Dec-21
31-Dec-23</td></tr>
<tr><td colspan="3">Service Commentary: The Core Accounting team are working with PWC [the Council’s VAT advisors] to update the methodology then creating files for all years not completed, started in 2022/23 and working back. Aiming to complete these calculations by the end of December.</td></tr>
<tr><td rowspan="3">HMO Licensing & Enforcement
30-Jul-21</td><td>Annual license renewal checks</td><td rowspan="3">31-Dec-21
31-Jan-24
31-Mar-24
(Current date reported as 27-Nov previously)</td></tr>
<tr><td>Match unallocated payments to outstanding civil penalty notices (CPNs)</td></tr>
<tr><td>Pass unpaid CPN details to debt recovery</td></tr>
<tr><td colspan="3">Service Commentary: One of four actions [as reported in September] now complete. On unallocated payments and unpaid CPN details, only two now remain outstanding and will complete by end January. On the license renewals, the original date was based on expected functionality of a new system. Will now have to deliver through alternative means and will update in new year.</td></tr>
<tr><td>Homelessness
3-Oct-22</td><td>Conduct reconciliation between Locata system and housing register duty.</td><td>31-Mar-23
29-Mar-24</td></tr>
<tr><td colspan="3">Service Commentary: Delayed implementation owing to volume of cases within the system. Completion now expected by end of 2023/24.</td></tr>
</table>

Medium Priority Actions Overdue (x12)

Audit Title & Report Date	# Actions Overdue	Earliest Due Date (original)	Latest Due Date (current)
Asset Management 3-Feb-21	1	30-Apr-21	30-Apr-24
Service Commentary: Current due date previously reported as 30 September, now scheduled as part of year-end processes.			
School Finance 20-Apr-21	3	30-Jun-21	30-Apr-24
Service Commentary: One action complete (4 previously reported outstanding). Remainder will be completed within revised school finance manual at year-end so current due date moved (previously reported as 30 September)			
Accounts Receivable 20-May-21	1	30-Sep-21	31-Jan-24
Service Commentary: Concerns review of credit note processes, now scheduled to take place after current recruitment (current date previously reported as 30-Sep).			
Main Accounting 2-Jul-21	1	31-Dec-21	31-Dec-23
Budget Monitoring CYP/COM 24-Aug-21	2	31-Oct-21	22-Dec-23
Homelessness 3-Oct-22	1	31-Oct-22	29-Mar-24
Service Commentary: Discretionary Housing Payment reconciliation delayed alongside Locata reconciliation. Now expected by end of 23/24 (was 30-Sep).			
Voids Management 29-Jun-23	3	30-Jul-23	30-Sep-23

7. Financial implications

7.1. This report is to note, so there are no directly arising financial implications.

8. Legal implications

8.1. This report is to note, so there are no directly arising legal implications.

9. Risk Implications

9.1. This report is to note, so there are no directly arising risk implications.

10. Equalities implications

10.1. This report is to note, so there are no directly arising equalities implications.

11. Climate change and environmental implications

11.1. This report is to note, so there are no directly arising climate change and environmental implications.

12. Crime and disorder implications

12.1. This report is to note, so there are no directly arising crime and disorder implications.

13. Health and wellbeing implications

13.1. This report is to note, so there are no directly arising health and wellbeing implications.

14. Background papers

14.1. There are no background papers not otherwise referenced in the report.

15. Report authors and contact

15.1. For any queries on the report please contact Rich Clarke, Head of Assurance on 020 8314 8730 or by email at rich.clarke@lewisham.gov.uk.

16. Appendices

16.1. Appendix A – Counter Fraud Case Studies (Part 2 Appendix)

Audit & Risk Committee

Corporate Risk Register Update December 2023

Date: 6 December 2023

Key decision: No.

Class: Part 1.

Wards affected: All.

Contributors: Rich Clarke, Head of Assurance

Outline and recommendations

This paper sets out the completely revised corporate risk register, developed incorporating Lewisham Homes' risks from a fresh risk identification exercise in Autumn 2023. We have developed this register arising from the Council's new risk management framework and it sits alongside broader service and project-level risk documentation in the Council's risk management software, Pentana Risk. Risk management remains a live and developing field, so the paper also sets out plans for further enhancing our risk information through 2024.

We ask Members to **note** the report.

Timeline of engagement and decision-making

The Corporate and Directorate Risk Registers are updated by risk owners throughout the year. On this specific refresh and iteration of the Corporate Risk Register:

5 October 2023: Existing risk register revised to incorporate Lewisham Homes.
12 October 2023: Senior Leadership Team Risk Identification Workshop.
15 November 2023: Revised risk register to Executive Management Team.
28 November 2023: Cabinet Briefing on revised risk register
6 December 2023: Refreshed risk register at Audit & Risk Committee
Early 2024 (date tbc): Presentation of risk information to Mayor & Cabinet

1. Summary

1.1. This report and appendix provides an update on continuing refresh of risk management at Lewisham. Specifically, it includes (in appendix) the revised Corporate Risk Register plus information on Directorate Risk Registers.

2. Recommendations

2.1. We ask that Members **note** the report.

3. Policy Context

3.1. This report aligns with Lewisham's Corporate Priorities, as set out in the Council's Corporate Strategy (2022-2026):

- Cleaner and Greener
- A Strong Local Economy
- Quality Housing
- Children and Young People
- Safer Communities
- Open Lewisham
- Health and Wellbeing

3.2. The report supports each priority as part of establishing and maintaining a sound governance system throughout the Council.

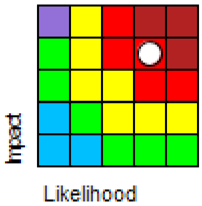
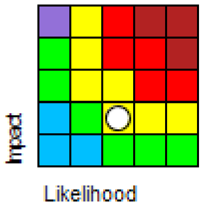
4. Corporate Risk Registers

4.1. The appendix to this report presents the current Corporate Risk Register alongside some headline information from Directorate Registers. The Corporate Risk Register has been completely refreshed in Autumn 2023. The previous version had not undergone a comprehensive review for some years, and including risks inherited from Lewisham Homes brought it up to more than 40 items recorded. While there is no maximum risk register size, general good practice limits suggest it remain no larger than can be reasonably considered within a single routine meeting.

4.2. As well as updating content, the focus on revision was to restrict the Corporate Risk Register to those risks being actively managed at Executive Management Team level. Those risks being managed by Senior Leadership Team (that is, Director level) or elsewhere, we transferred to Directorate Risk Registers to support their review at Directorate Management Teams.

4.3. The revised register contains 20 risks, each managed by an Executive Director.

Each report entry follows a similar format, as below:

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL003 Non-Compliance with Health & Safety At Work Act Regulation **Jennifer Daothong**	Following weak governance, ineffective management, poor procedure or unaddressed incidents the Council **does not comply with health and safety regulation** resulting in increased threat to safety, financial liability and prosecution risk.			H&S Service Audit Programme 23/24 31-Oct-2023 100% Fire Safety and Evacuation Approach 30-Nov-2023 100% H&S Training Identification 15-Jan-2024 75% Premises Officer 31-Jan-2024 25%

4.4. Looking at the components of each entry:

- **Code**: Each risk has a unique code to identify it within risk reporting. Corporate Risks uses the “LBL” format, with others having a format to identify its location in the register (for instance, risks within the Assurance Division start “COR-ASU” to identify directorate and division).
- **Title**: A short title summarising the topic of the risk
- **Owner**: A named individual with overall responsibility for managing the Council’s response to the risk. All Corporate Register risks are owned by an Executive Director. Other identified risks are managed by Directors, Heads of Service and Managers as appropriate.

- **Description**: More detail about the subject of the risk. Descriptions tend to follow a standard format: "because of (causes) (risk event) resulting in (consequences)". This gives a brief overview of what circumstances may cause the risk to crystallise and what impact may follow. It is not a comprehensive list of causes and impacts, although that information is held separately.
- **Current Risk Matrix**: Current risk score on a 5 x 5 scale of impact and likelihood. Definitions of each point in the scale are included in the appendix. As a 'current' score, this shows the evaluation of risk based on mitigations and controls already in place and operational.
- **Target Risk Matrix**: Showing the level of risk we are aiming for, recognising that 'zero' risk is not practical. There will often be a target date for reducing risk to this level, working alongside identified remedial actions.
- **Related Action, Due Date & Progress**: Documentation of actions to further mitigate risk is still in development and the primary focus of next steps. The example here has a relatively comprehensive set of actions aimed at reducing impact and likelihood. Actions feature a due date and progress bar to help tracking implementation in risk reporting.

5. Directorate, Service and Project Risk Registers

5.1. Previously, the corporate risk register was the primary outlet for risk reporting to the extent that arrangements outside that report varied significantly in format and update routines. Our new risk management strategy coheres directorate risks into a common structure and update cycle to provide greater transparency on how services manage risks outside the Corporate level. One immediate consequence is that a number of risks previously included in Corporate Risk Registers are now recognised within Directorate registers. Risks now reported within directorates are (along with the reference number as reported to Members in September):

- Risk 311: Failure to collect debt (now on Corporate Resources' risk register for council tax/business rate debt and other directorates separately as appropriate).
- Risk 161: Elections not conducted in line with law (not on Chief Executives' directorate risk register)
- Risk 331: Local Plan not proceeding (now on Place Directorate risk register)
- Risk 341: Loss of parking income due to being a greener borough (now on Place Directorate risk register)
- Risk 231: Failure to agree with partners integrated delivery models for local health and social care (now on Community Services' risk register)
- Risk 251: Global commodity price increases or supply chain shortages (now included on directorates' risk registers based on the specific prices and shortages impacting individual services)
- Risk 181: IT not fit for business need (now included on directorates' risk registers based on the specific IT deficiency threats impacting individual services)

- Risk 301: Lack of provision for unforeseen expenditure or loss of income from funding streams (now included on directorates' risk registers based on specific threats of unforeseen spending or vulnerable funding)
- Risk 101: Governance failure in implementing service change (now included on directorates' risk registers drawing on specific planned service changes)
- Risk 261: Failure to manage performance leads to service failure (now included on directorates' risk registers where there are specific service performance management challenges).

5.2. The combined matrix for directorate-level risks currently records the following distribution.

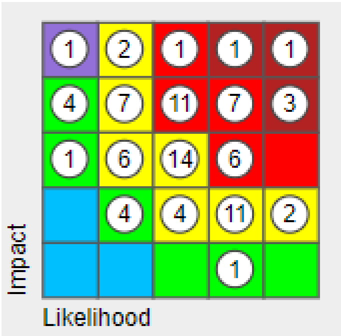


Figure 1: Combined risk matrix for directorates, showing 5x very high risks, 25x high risks, 56x moderate risks and 11x low risks

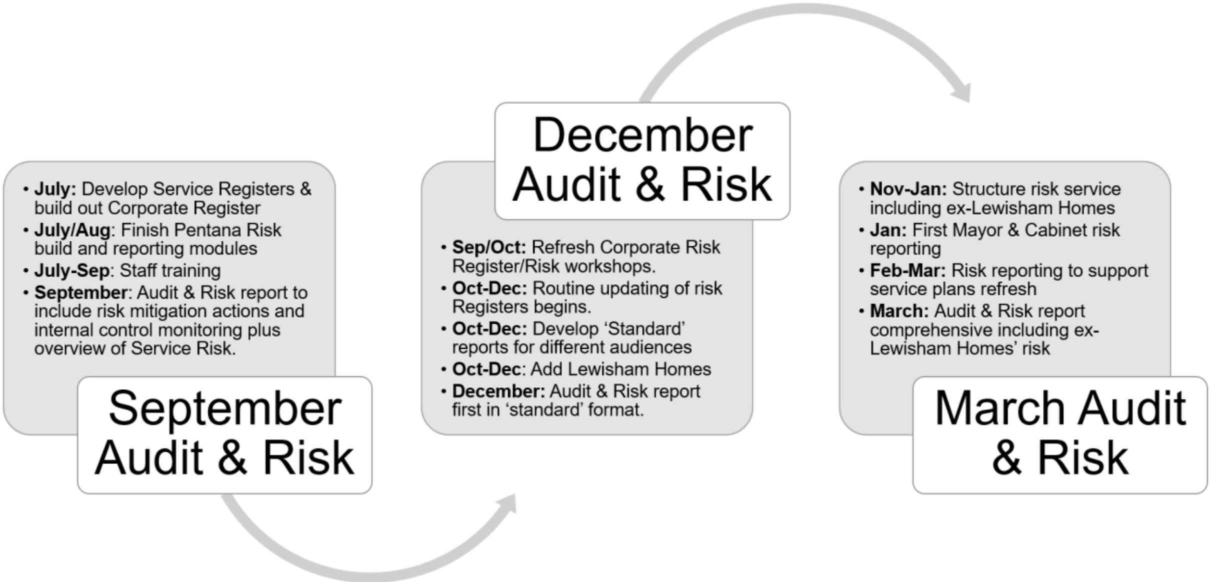
5.3. In addition, there are a number of risks presently awaiting allocation of a current score which do not therefore appear on the matrix. These risks largely came from service planning in late spring 2023, where the standard form invited a risk listing without scoring or additional information.

5.4. Reporting to Executive Management Team details the very high and high directorate risks along with actions underway for further mitigation. Every risk, at whatever level, also has a named owner and a review schedule (often quarterly reviews at Directorate Management Teams).

5.5. As well as service risks, we are also incorporating into Pentana Risk information related to specific project or topic risks. This includes, right now, separate risk registers on **Emergency Planning** and **IT Network Security**. This scoring uses alternative approaches (to be consistent with the London Resilience Forum and Shared Technology Services' methods accordingly) so does not map directly onto the standard Lewisham matrix. However, very high risks on these evaluations are also reported to Executive Management Team. During 2024 we aim to include additional project risks, for example on IT and capital development works, to provide a comprehensive picture of the Council's risk environment and response.

6. Developing the Risk Management Strategy: Timeline

6.1. We have previously reported to Members in June and September on developing plans to refresh and improve the Council's risk management approach. We've used the timeline below in setting out intended milestones and timing for that development.



6.2. Progress is slightly ahead of the timeline above. We have already fully integrated former Lewisham Homes risks into the Council's reporting. We have also developed Directorate level reporting and begun regular risk updating; some Directorates are already at their second or third 'routine' update.

6.3. As well as regular updates to keep risks 'live' we also plan to further develop the extent and utility of information held alongside risk records. In summary, these plans include:

Fourth Quarter 2023/24

- Developing all identified risks to include scoring, target levels and planned risk mitigation actions (which are then tracked through to implementation).
- Documenting extant controls and mitigations, including commentary on the level of assurance those mitigations can provide.
- Linking risk more closely with internal audit planning to provide management with assurance on whether identified controls are effectively delivering risk mitigation.
- Providing data to teams ahead of 2024 service planning to help understand their service, support planning and refresh documented information.

First Quarter 2024/25

- Scheduling regular risk updates as an integrated part of the Council's broader governance and compliance systems.
- Linking identified risks together thematically to support recording and analysis on individual topics (e.g. recruitment, finance, IT, supplier management).
- Developing reporting dashboards to focus on change and highlighting areas of interest or concern.
- Reviewing the structure of the assurance division to ensure it can effectively support all the above, including potentially expanding the pool of risk administrators into Directorates.

Later into 2024/25

- Reviewing performance data with a view to reporting alongside relevant risks aiding sense-checking and assessing success of mitigation measures.
- Developing a range of risk matrices to support various project and regulatory compliance requirements, building Pentana Risk as a single Council-wide repository for risk and control information.
- Expanding advanced knowledge of Pentana Risk to support development of bespoke reporting within services.

6.4. We will continue to keep Members of the Audit & Risk Committee updated at each routine meeting.

7. Financial implications

7.1. Refreshing the Council's risk management approahc is being delivered within existing budgets.

8. Legal implications

8.1. There are none arising direct from this report.

9. Risk Implications

9.1. This report is an update for noting, rather than decision, and so has no risk implications directly arising.

10. Equalities implications

10.1. There are none arising direct from this report.

11. Climate change and environmental implications

11.1. There are none arising direct from this report.

12. Crime and disorder implications

12.1. There are none arising direct from this report.

13. Health and wellbeing implications

13.1. There are none arising direct from this report.

14. Background papers

14.1. All relevant background papers are included as appendices.

15. Report author and contact

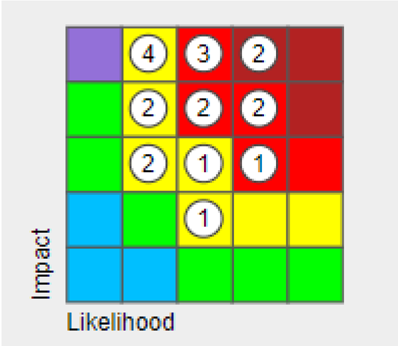
15.1. For any queries on the report please contact Rich Clarke, Head of Assurance on 020 8314 8730 or by email at rich.clarke@lewisham.gov.uk.

16. Appendices

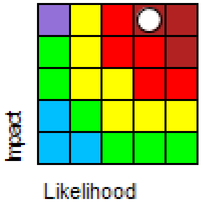
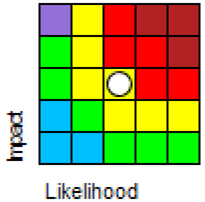
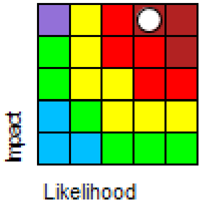
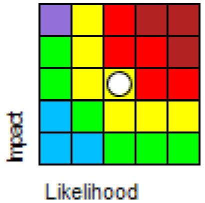
16.1. Appendix A – Corporate Risk Register, November 2023

Appendix A: Corporate Risk Register

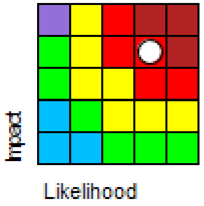
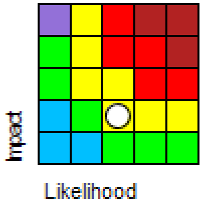
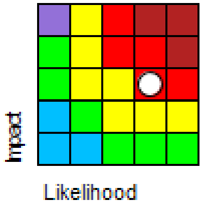
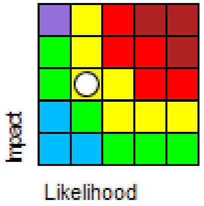
Generated on: 25 November 2023



Very High Risks (2)

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Actions, Due Date & Progress
LBL001 Failure to achieve full regulatory compliance for Council Housing Stock **Gillian Douglas**	Following governance failure, incomplete or ineffective maintenance or not keeping up with requirements the Council **fails to achieve full regulatory compliance for Council Housing Stock** increasing risk to residents' safety, increasing liability and repair cost and reducing ability to use housing stock to support residents.			Complete Housing Stock Condition Survey 30-Sep-2024 5%
LBL002 Unable to effectively improve housing stock **Gillian Douglas**	Owing to incomplete or inaccurate stock condition information, lack of resources to secure improvement, poor project management for works or continued unexpected deterioration the Council is **unable to effectively improve its housing stock** resulting in higher maintenance costs, poor quality housing for tenants, increased health and safety risk with Council liability and not achieving key corporate objectives from Lewisham Homes merger.			Complete Housing Stock Condition Survey 30-Sep-2024 5%

High Risks (8)

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL003 Non-Compliance with Health & Safety At Work Act Regulation **Jennifer Daothong**	Following weak governance, ineffective management, poor procedure or unaddressed incidents the Council **does not comply with health and safety regulation** resulting in increased threat to safety, financial liability and prosecution risk.			H&S Service Audit Programme 23/24 31-Oct-2023 100% Fire Safety and Evacuation Approach 30-Nov-2023 100% H&S Training Identification 15-Jan-2024 75% Premises Officer 31-Jan-2024 25%
LBL004 Workforce attraction and retention **Jennifer Daothong**	Following lack of competitive offer, cumbersome recruitment processes, reputation as an employer, employment market challenges, financial restrictions, failure of succession planning or poor management the Council cannot effectively **attract or retain sufficient workforce** leading to increased workload and stress among remaining staff, inability to achieve service goals, failure to retain a representative workforce, loss of organisational memory and increased spend on temporary/agency employees.			

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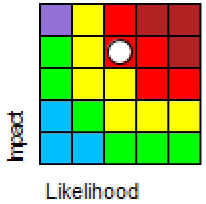
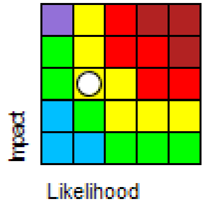
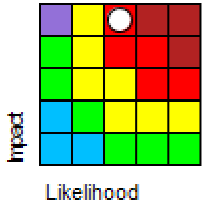
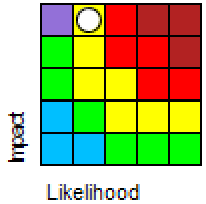
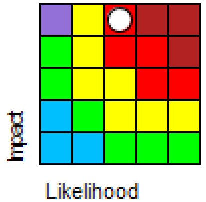
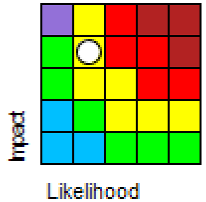
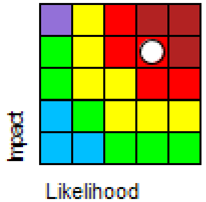
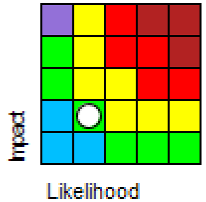
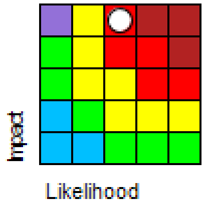
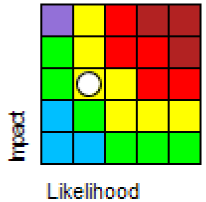
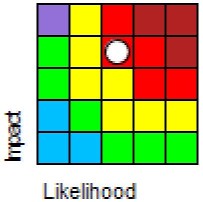
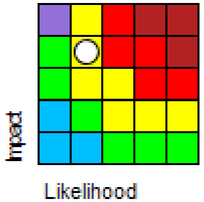
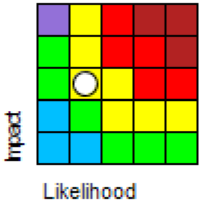
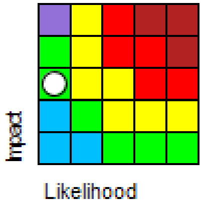
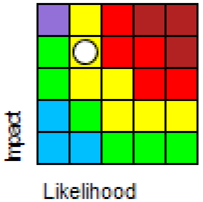
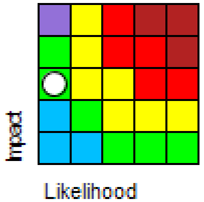
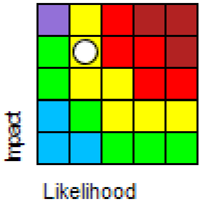
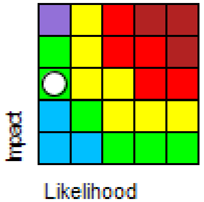
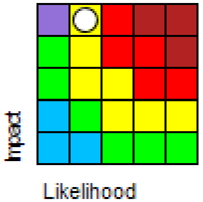
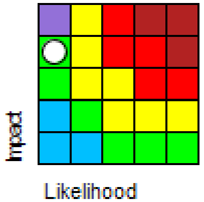
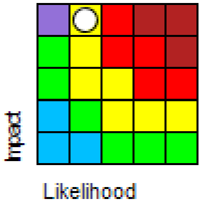
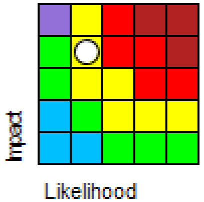
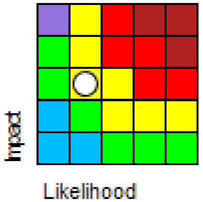
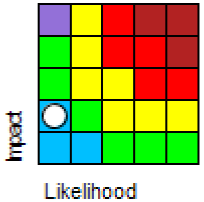
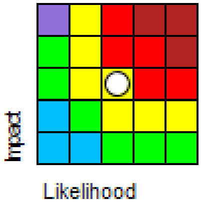
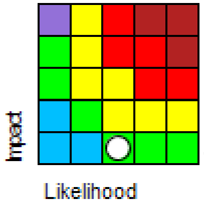
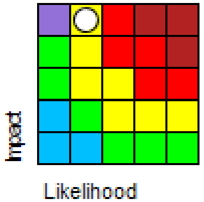
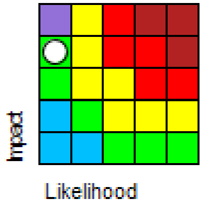
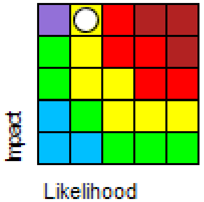
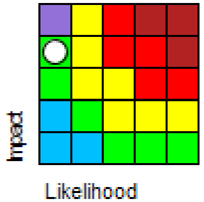
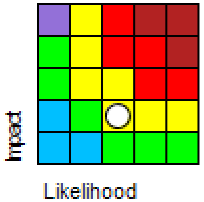
Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL008 Disruption to services following major supplier failure **Jennifer Daothong**	Following failure to manage relationships, supplier malfeasance, poor economic conditions or difficult contractual arrangements the Council experiences **failure of a major supplier** resulting in increased expense, disruptions in service or service failure, increased risk of legal liability.			
LBL009 Significant Cyber Security Breach **Jennifer Daothong**	Because of failure in IT security, or novel attack the Council suffers a **Significant Cyber Security Breach** which widely disrupts systems or data, places data security at risk and severely inhibits usual ways of working.			
LBL011 Widespread budgetary control failure **David Austin**	Because of significant unanticipated overspends, lack of governance or material loss of income the Council suffers **widespread budgetary control failure** threatening its ability to deliver effective services, financial stability and ability to coherently plan for the future.			
LBL013 Cost of Living Impact on Residents **David Austin; Pinaki Ghoshal**	Continued wider economic uncertainty heightens the **cost of living impact on residents** increasing service delivery demand and reducing income collection rates.			
LBL014 Major procurement failure **David Austin**	Due to compliance failure, market issues, deliberate malfeasance or errors in process the Council experiences a **major procurement failure** resulting in gap or loss of service, increased cost, poor contractual terms, damaged relationships or heightened risk of legal liability			

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL020 Building For Lewisham Programme Failure **Nazeya Hussain**	Due to financial constraints, unexpected circumstances, supplier failure, economic uncertainty or contractual issues the **building for lewisham programme fails to deliver its objectives** resulting in overspends, poor or non-complete buildings, loss of income and reputational damage.			

Moderate Risks (10)

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL005 Sharp decline in employee morale **Jennifer Daothong**	Following poor management, wider economy employee relations issues or mishandled change the Council sees a **sharp decline in employee morale** resulting in increased absenteeism, workforce attraction and retention issues and reduced service delivery.			
LBL006 Major Information Governance Failure **Jennifer Daothong**	Following inadequate training, poor handling practice, ineffective oversight, human error or deliberate malfeasance the Council experiences a **major information governance failure** resulting in reputation damage, increased risk of enforcement action and inefficient service operation.			
LBL007 Significant legislative change **Jennifer Daothong**	Following failure to anticipate, poor preparation, lack of consultation or limited change capacity the Council experiences detriment from **significant legislative change** resulting in increased expense to meet modified duties, service disruption during change or increased risk of non-compliance with legal duty.			

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL010 Inability to set a balanced budget **David Austin**	Due to chronic lack of resources, failure to agree savings, or governance failure the Council is **unable to set a balanced budget** leading to s114 notice and Government intervention alongside significant impairment in ability to deliver services.			
LBL012 Significant Internal Control Failure **David Austin**	Owing to failure to implement effective control framework for key business activity, poor culture, or inability to identify and deal with bad actors the Council suffers a **significant internal control failure** leading to financial or asset loss, significant reputational damage or service delivery failure.			
LBL015 IT does not effectively deliver **David Austin**	Due to contractor underperformance, technical failure, supply chain difficulty, insufficient funding or inadequate scoping the Council's **IT does not effectively deliver** resulting in poor performance, impacted staff morale, increased cost of remedy and increased risk of data loss.			
LBL016 RAAC In School & Corporate Buildings **Pinaki Ghoshal; Nazeya Hussain**	Because of poor historical construction choices the Council identifies **RAAC** (Reinforced Autoclaved Aerated Concrete) **in school and corporate buildings** leading to increased threat to safety and cost of temporary and permanent remediation works.			Remedial works in RAAC school 31-Dec-2023 80% Long Term RAAC solution scoping 31-Dec-2024 15% Reviewing surveys following new DfE guidance 31-Dec-2023 90%

Code, Title & **EMT Owner**	Description	Current Risk Matrix	Target Risk Matrix	Related Action, Due Date & Progress
LBL017 Major Child Safeguarding Failure **Pinaki Ghoshal**	Following management failure, poor practice, or mistaken risk assessments the Council experiences a **major child safeguarding failure** resulting in significant reputational damage, financial liability and service failure in addition to impacts on the affected family.			
LBL018 Major Adult Safeguarding Failure **Tom Brown**	Following management failure, poor practice, or mistaken risk assessments the Council experiences a **major adult safeguarding failure** resulting in significant reputational damage, financial liability and service failure in addition to impacts on the affected individual(s).			
LBL019 Failure to deliver climate emergency strategy **Nazeya Hussain**	Because of resource limits, varying political will, poor governance, a lack of clarity on what delivery means or increased challenge the Council **fails to deliver its climate emergency strategy** resulting in environmental damage, loss of local leadership reputation and increased mitigation costs.		[target risk not set]	

Impact and Likelihood Definitions

Impact 1 Lowest Impact Lowest impact, will temporarily divert resources but likely cause no significant lasting impact on objectives.	**Likelihood 1 Extremely Unlikely** Extremely Unlikely, around a 1 in 1,000 chance
Impact 2 Small impact Small impact, will divert resources and provide some limitations but not likely to significantly impact material achievement of objectives.	**Likelihood 2 Very Unlikely** Very Unlikely, around a 1 in 250 chance
Impact 3 Moderate Impact Moderate impact, will allow continued progress toward objectives until resolved.	**Likelihood 3 Unlikely** Unlikely, around a 1 in 50 chance
Impact 4 Large Impact Large impact, will temporarily stall or seriously impair progress towards objectives until resolved.	**Likelihood 4 Possible** Possible, around a 1 in 10 chance
Impact 5 High Impact Highest impact, will effectively prevent progress toward objectives until the risk event is resolved.	**Likelihood 5 Probable** Probable, around a 1 in 2 chance

Lewisham

Audit & Risk Committee

Exclusion of the Press and Public

Date: 6 December 2023

Key decision: No

Class: Part 2

Ward(s) affected: All

Contributors: Head of Assurance

Outline and recommendations

Members are asked to note items that will be considered in closed session

Recommendation

It is recommended that under Section 100(A)(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information as defined in paragraphs 3, 4 and 5 of Part 1 of Schedule 12(A) of the Act, as amended by the Local Authorities (Executive Arrangements) (Access to Information) (Amendments) (England) Regulations 2006:-

7. Oracle Accounting Software Issue
8. Counter Fraud Case Studies

Agenda Item 7

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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