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Title:	**Audit and Performance Committee**
Meeting Date:	**Thursday 12th May, 2016**
Time:	**7.00 pm**
Venue:	**Rooms 3 & 4 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**
Members:	**Councillors:** Jonathan Glanz (Chairman) Lindsey Hall (Vice-Chairman) David Boothroyd Judith Warner

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Reuben Segal, Senior Committee and Governance Officer.

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Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

Charlie Parker
Chief Executive
4 May 2016

AGENDA ITEM No:

City of Westminster

Audit and Performance Committee

Date:	Thursday 12th May 2016
Classification:	General Release
Title:	2015/16 Annual Accounts
Report of:	City Treasurer
Cabinet Member Portfolio	Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	The efficient and effective management of the Council's financial affairs
Report Author and Contact Details:	**Steven Mair – City Treasurer** **smair@westminster.gov.uk**

1. Executive Summary

1.1 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. Regulations state that the Council should submit its accounts for audit by 30 June 2016 and that a committee should approve the final, audited 2015-16 Statements for both the Council and the Pension Fund by 30th September 2016. In accordance with the Council's considerably enhanced closure programme (quality and pace) these accounts:

- were submitted to Grant Thornton for external audit on the 9th April 2016. Thus the Council has achieved in 9 days what most local government bodies take 3 months to complete

- are the earliest public sector accounts ever issued

- have exceeded the performance of 94% of the FTSE 100, including the 9 largest companies

- were reported to the Audit and Performance Committee on the 12th May, four and half months before the statutory deadline

1.2 This builds on the performance for 2014/15 when the Council submitted its accounts on the 16th April 2015, published its accounts earlier than any other local government body on the 18th May 2015, were the earliest local government body accounts for 70 years and exceeded the performance of 83% of the FTSE 100

1.3 Other key items to note are:

- The revenue outturn shows an underspend of £5.54m against budget.

- The capital programme original budget including 2014/15 slippage of £13.86m was £188.3m. This was re-profiled to £94.697m after adjustments and virements with the forecast outturn reported as £75.46m as at Period 10. As at year end the outturn position is reported as £69.432m which represents an underspend against original gross budget of £118.87m (63%).

- The original HRA capital budget for 2015-16 was £93.4m including slippage from 2014/15 of £3.6m. At period 10 the forecast outturn reported as £49.6m. The actual outturn position was £54.7m, which represents an underspend against original gross budget of £38.7m (41%).

- The overall Council capital programme position was therefore an original budget of £281.7m, a re-profiled budget of £188.097m after adjustments and virements with the forecast outturn reported as £125.06m as at Period 10. As at year end the outturn position is reported as £124.132m which represents an underspend against original gross budget of £157.568m (56%).

- The balance sheet strengthened during the financial year with overall net assets increasing from £1,777m in 2014/15 to £1,898m as at 31 March 2016. As a consequence of the improved financial position for the year the Council was able to increase its General Fund Reserves by £5.54m to a closing balance of £41.58m to provide the Council with on-going financial resilience in an increasingly austere economic climate over the medium-term.

- This year's closedown process has been challenging given the need to bed down the new Agresso system which went live 1 April 2015 as part of the Managed Services Programme. However, despite these challenges there have been a range of improvements in the accounts and accounting year on year covering back office processes and systems (e.g. a refreshed "cloud based" asset register) and improved presentation, accuracy, better inclusion of information and improved accounting.

1.4 There is a technical change related to the publication of local authority accounts effective from this year whereby the accounts are subject to new arrangements for the exercise of electors' rights, which take effect from the 2015-16 financial statements. One of the most significant changes is that the auditor is no longer required to 'call the audit' and specify a date upon which electors can meet with the auditor and ask questions about the accounts. In addition, the period for the exercise of electors' rights is set at 30 working days, and for 2015-16 must include the first 10 working days of July.

1.5 The Council's meeting to consider and approve the accounts must take place after the period for the exercise of electors' rights has ended. In practice this means therefore that the inspection period this year cannot end before 14 July 2016. This means that no authority is able to formally approve and publish their accounts before 14 July 2016 with the Inspection period starting on 3rd June 2016. To comply with this a special Audit and Performance Committee has been called for 5pm on the 14th July which is after the end of the Council's inspection period which concludes at 4pm on the 14th July.

2. Background

2.1 The Council prepared its final accounts for 2015/16 and submitted them to the Council's external auditors, Grant Thornton, for audit on 9th April 2015. This is a full 12 weeks in advance of the statutory requirement of the 30 June.

2.2 The Council has very significantly improved the quality and the timeliness of its accounts. This has been achieved the through the financial transformation programme that was put in place for 2014/15 and which has continued into 2015/16 and which will continue going forward.

2.3 The accounts are shown as the Appendix 1 and contain full detail of the Authority's finances for the year.

3 Timetable

3.1 The Authority has continued accelerating the timeliness of its closedown process and simultaneously targeting improving the quality of its final accounts preparation.

3.2 In recent prior years the date that the Authority has submitted its accounts for audit has been as follows:

- 2012/13 30th June 2013
- 2013/14 19th May 2014
- 2014/15 16th April 2015
- 2015/16 9th April 2016

4 Financial Management Quality Transformation

4.1 The Council's accounts represent one outcome from the financial management transformation work that is continuing. This will underpin the work of the Council as well as ensuring compliance with statutory requirements, budget management and excellent financial practice.

4.2 In support of this approach a series of further improvements have been brought about:

- lessons learned from 2014/15 were identified and implemented in this year's timetable which was rolled out for period 5 as a partial hard closedown and then monitored and updated throughout the year. This enabled us to identify new requirements such as the implementation of IFRS13 'Fair Value measurement' early and establish a strategy for its successful implementation.

- the Core Statements and a number of notes can now be generated automatically from the Trial Balance. This reduction in the production time means more attention can be spent interrogating and reviewing the figures which underpin the statements.

- an enhanced Quality Assurance process which ensured all working papers were produced in a standardised way to enable consistency and accuracy through a centralised QA team.

- a number of training courses on technical issues were run throughout the year as well as more informal sessions. These covered areas including technical accounting issues, working paper production and Agresso training.

- the asset register was moved onto a cloud based platform significantly improving performance. This enabled a reduction the time required in uploading year end information significantly contributing towards the faster close.

4.3 Using project management disciplines the Council has developed a highly detailed action plan, defined roles and responsibilities, a communication and stakeholder management plan, risk management and progress reporting.

4.4 There have been a series of improvements in the 2015/16 accounts themselves. Some examples of matters improved during 2015/16 which in previous years had not been dealt with to the same standard are noted below:

- "de-cluttering" of the accounts, removing those items which are of a non-material nature or do not help to clarify for users of the document.

- the order of the notes has been amended to help improve the flow of the document. Notes are now ordered based on which Core statement they relate to in order to aid the reader of the accounts.

- a full review of service concessions and similar contracts has taken place to reclassify reference to PFI schemes.
- inclusion of a “Narrative Report”, replacing the Explanatory Forward.
- more detailed disclosure of material items of income and expenditure
- improved formatting of draft accounts, so there is minimal difference between the version first presented to audit and that posted online as the final design version.

4.5 Work to drive forward quality further in 2016/17 will be further prioritised

5 Benefits of the Early Closure of Accounts

5.1 The early closure of accounts continues to brings with it the following benefits:

- the ability to provide earlier assurance and information to stakeholders providing much more timely information than has been the case in the past
- the early closure of accounts is a significant driver of efficiency and therefore in the value the finance service can bring. In terms of efficiency the team is freed up to focus on the budget and medium term planning much earlier than would otherwise be the case, particularly important in the current very challenging financial circumstances
- it will allow the whole of finance to turn its attention to in year issues and the benefits this will bring almost immediately after accounts finalisation rather than later in the financial year
- likewise the service will be able to direct its resources to planned improvements in capital modelling and monitoring, an area previously identified as worthy of increased attention
- embedded and refined project management skills. The closure of accounts is a significant project involving third parties, officers around the Council and the auditors. Project management will continue to improve for 2016/17
- staff experience, motivation and career development is enhanced. It is also the case that the reputation of Westminster Council finance will be improved by these significant developments.
- the early programme builds in capacity to address emerging issues in a timely manner should they arise.
- it sets a standard of quality, aspiration and timeliness which is then applied to other financial work.

6 Revenue Outturn – By EMT Member

6.1 As shown in Table 1 below, the full year outturn for the Council amounted to an under spend of £5.540m against the net service area budget of £196.306m. This is primarily due to City Management and Communities delivering a favourable variance of £4.671m combined with surpluses in the Chief of Staff (£0.189m), Adult Services (£0.199m) and other smaller net favourable variances across the other directorates.

6.2 In respect of key savings initiatives, the directorates were able to deliver against the targets or mitigate any shortfalls in savings which did not deliver in full, thereby delivering the surplus against budget of £5.540m. A review will be undertaken to verify whether the mitigating actions were on an on-going or one-off basis and hence whether there will be any risk for the 2016/17 outturn.

6.3 Risks and opportunities as reported at P10 were either mitigated or did not materialise by year end. Reporting on these recommence with 2016/17 monitoring, when the potential of these impacting the next financial year's outturn will be assessed.

Table 1 – Period 12 Actual Outturn by EMT Member

SERVICE AREAS - EMT Structure	Budget £000	Actual Outturn £000	Variance to Budget £000
Chief of Staff	2,721	2,532	(189)
City Treasurer	6,277	6,266	(11)
Director of Policy, Performance and Communications	9,008	8,991	(17)
Executive Director of Adult Services	64,030	63,831	(199)
Executive Director of Childrens Services	41,043	40,914	(129)
Executive Director of City Management and Communities	21,972	17,301	(4,671)
Executive Director of Corporate Services	19,260	19,095	(165)
Executive Director of Growth, Planning and Housing	31,995	31,836	(159)
SERVICE AREA TOTAL	**196,306**	**190,766**	**(5,540)**
Council Tax	46,043	46,043	-
Business Rates Net of Tariff	80,224	80,224	-
Revenue Support Grant	70,039	70,039	-
Corporate Financing	**196,306**	**196,306**	**-**
Net (Surplus) / Deficit	**-**	**(5,540)**	**(5,540)**

The above position is comprised of the following set out below:

Chief of Staff (Siobhan Coldwell)

6.4 The year-end position for the Chief of Staff's directorate was an under spend of £0.189m against the annual budget of £2.721m. The key drivers for the under spend were the Members Service (£0.158m), mainly relating to allowances; reduced pay spend (£0.095m), of which £0.061m was due Complaints and Customer service not recruiting to vacant posts;and under spends on other overheads (£0.052m). This was offset by an over spend on the Coroner's Service (£0.116m), of which £0.074m related to funeral expenses.

City Treasurer (Steve Mair)

6.5 The year-end position for the City Treasurer directorate was an under spend of £0.011m against a budget of £6.277m. The under spend comprises improved net interest earnings on loans and investments which delivered a favourable impact on net financing costs offset by technical adjustments required in the financial statements.

6.6 WCC business rates income has been significantly lower than CLG assumed baseline funding levels since the start of localised rates. (Lower by £57m in 2013/14 and £66m in 2014/15). It was a further £65m lower in 2015/16. The Council is however protected against a loss in excess of £6m loss by the safety net and thus the Council's budget was balanced in this regard. It is likely that a safety net payment will also be required next year. The 2017 Revaluation has the potential to create further similar problems in future years

Policy, Performance and Communications (Julia Corkey)

6.7 The final position was an under spend of £0.017m which was effectively in line with the forecasted position reported as at P10. The key drivers of the underspend were: employee costs lower than budget £0.686m; additional income of £0.417m, mainly relating to air quality grant income (£0.160m), funding of the business intelligence project (£0.121m) and over achievement on City Promotion, Events and Filming (£0.092m). However, non-pay expenditure was over spent mainly due to £0.544m on contracts, £0.524m against payments to service providers under Cross River Partnership, and £0.275m on other non-pay lines.

Adult Services (Liz Bruce)

6.8 The outturn position for Adult Services as at 31st March 2016 is an under spend of £0.199m. The position projected at P10 was a balanced budget and the main reasons for the variance are direct payment claw-backs of care payments received in March and general movements in placement packages. This was the result of a review of circumstances and needs of customers who were found to have a lower level of need and therefore were in receipt of excess funds which were to be returned to the Council. All in year budget pressures were contained within existing resources and the outturn includes the achievement of the £6m savings target for 2015/16.

6.9 The anticipated risk in the Homecare forecast of £0.1m at P10 did not materialise as it was mitigated by a slower than expected transfer of packages to new contracts.

6.10 There will continue to be on-going pressures on ASC budgets and a forecast growth in demand for care services as a result of increasing numbers of older people, people with disabilities and people with long term health conditions needing care. These demographic pressures are exacerbated by increasing pressure from hospitals to discharge patients in a timely fashion, particularly during the winter months. In addition there is pressure from a reduced capacity to make efficiencies from external care providers without affecting the quality of care they provide along with an increase in Homecare costs. Internal reviews of all areas of expenditure are on-going in order to mitigate pressure from care placements. Using ONS & GLA data, demographic pressures have been estimated as being approximately 1.7% of total placement budgets each year for the next 10 years at approximately £1.1m to £1.2m p.a. and this is being closely monitored for financial planning.

6.11 On the 4th June 2015 it was announced by the Treasury that Non-NHS Health budgets are to be cut in-year by £200m (6.2%) across England. WCC's current share of the total Public Health funding for 2015/16 is £33.477m. For WCC this equated to a cut of £2.076m which was met from contract underspends and unexpected underspends in Public Heath Investment Fund approved projects. In the Spending Review the Chancellor advised that there would be further savings in the Public Health grant - an average real terms saving of 3.9% each year to 2020/21.

Children's Services (Andrew Christie)

6.12 Overall the Children's Services directorate has reported an outturn underspend of £0.129m. This is an improvement on the breakeven projection at P10.

6.13 The Commissioning service was underspent by £0.042m as it delivered early MTP savings on Early Years, Legal & Family Partnership budgets, which offset overspends on Assessment and Contact services, plus staffing and transitional costs associated with the delayed implementation of the restructure to the service.

6.14 Family Services had an adverse outturn of £1.136m mainly arising from significant demand-led pressures relating to external private and residential placement costs brought about through Government strategy and/or legislative changes. Although placement expenditure has decreased by the MTP target, it still remains a significant cost pressure to the service overall. There were also in-year cuts in Government grant funding for the Youth Offending Service and also the late delivery of MTP savings relating to Play and Children's Centres.

6.15 There were also overspends within the Schools Commissioning and Education service of £0.364m mainly due to overspends on the SEN passenger transport contract as the number of high needs, high cost service users have been higher than anticipated. There were also pressures as a result of additional expenditure required to support service stability through the conversion of SEN Statements into the new Education, Health and Care Plan (EHCP) format. These overspends were partially mitigated by underspends within school standards as a result of increased income.

6.16 The Safeguarding and Quality Assurance service had a small overspend a result of additional agency expenditure to cover short term vacancies (£0.052m).

6.17 The Finance and Resources service had a favourable outturn of £1.580m as it has delivered underspends from Social Care Legal, Transport and Building Schools Future budgets.

City Management and Communities (Stuart Love)

6.18 City Management and Communities reports an overall net surplus to budget at year-end of £4.671m.

6.19 This is partly due to the Parking service having a net surplus of £2.190m, arising from contract budget underspends (£1.5m), combined with additional income resulting from implementing the tariff review recommendations in-year (£0.690m).

6.20 The Waste service delivered a net surplus of £1.878m from growth in commercial waste sales and fees, after offsetting additional disposal and collection costs of £0.7m.

6.21 Highways and Public Realm was underspent by £1.842m due to staffing vacancies of £0.641m, additional savings in supplies and services (£0.201m) and lower volumes of reactive maintenance (£1.0m), especially in respect of footways.

6.22 Public Protection and Licensing had a favourable outturn variance of £1.115m predominantly due to staffing vacancies. Within that figure a surplus from Tables and Chairs licensing (£0.615m) has offset the impact of funding the CCTV service. Some income pressures in Roads Management were mitigated by underspends in supplies and services in other areas.

6.23 The Libraries and Registrars Service is reporting a small underspend of £22k; while this is small, there have been larger variances within Registrar’s income, offset by underspends in salaries.

6.24 The service was also able to establish resources of £1.8m which are held on the Council’s balance sheet and which, subject to approval of business case submissions, may be available for release to fund future years’ MTP change initiatives, by way of example the digitisation agenda and libraries transformation. A further £0.335m of digital programme costs were funded by the directorate from the above underspends during the year.

Corporate Services (Nick Dawe)

6.25 The year-end position for Corporate Services was an under spend of £0.164m against the full year budget of £19.260m – £0.064m better than the position reported at P10, after expensing c£0.79m in respect of the Office 365 and Strategic Infrastructure Platform projects (spend longer qualifying as capital). The key driver for the overall under spend was staff vacancies in HR. At P10 it was viewed that the Procurement service could undergo a restructure at a Bi-Borough level which would have delivered savings and equivalent costs of delivery. No decision was confirmed however and no restructure has taken place.

Growth, Planning and Housing (Ed Watson)

6.26 Growth, Planning and Housing has a small surplus overall against budget at year end of £0.159m. This compares with a projected overspend at P10 of £0.25m. There are several significant variances within GPH that contribute to this including overspends on Temporary Accommodation as a result of the increase in demand for TA and the average weekly cost of provision (£3.5m) and delays in starting major projects that adversely impacted on developer income (£1.3m).

6.27 These overspends were largely mitigated from underspends and savings within Rough Sleeping and Supporting People contracts (£1.3m) and the application of the TA reserve (£2.0m). In addition there were underspends within Development Planning on staffing (£0.8m), increased income from planning applications (£0.6m), offset by reduced income on rechargeable work, notably building control (£0.73m) and other overhead overspends of £0.1m. Lastly within Corporate Property there was an under spend on premises related expenditure. Underperformance against key indicators on the part of a service provider and a change control rebate adjustment relating to the canteen subsidy amounted to £0.3m, while other net premises cost underspends (including NNDR and energy) amounted to £0.2m.

7 Capital Outturn

7.1 The table below shows the Approved Budget and projects by EMT member for 2015/16

Table 2 – Capital 2015/16 Outturn by EMT member

SERVICE AREAS - EMT Structure	Revised Gross Capital £000	Revised External Income £000	Budget (Net) £000	Final Gross Capital £000	Final External Income £000	Outturn Net £000	Gross Expend vs Budget £000	External Income vs Budget £000	Net Spend Variance £000
Chief of Staff	0	0	0	0	0	0	0	0	0
City Treasurer	0	0	0	0	0	0	0	0	0
Director of Policy, Performance and Communications	0	0	0	0	0	0	0	0	0
Executive Director of Adult Services	92	(165)	(73)	262	(151)	110	(170)	(14)	(183)
Executive Director of Childrens Services	6,124	(5,565)	559	7,521	(7,223)	297	(1,396)	1,658	262
Executive Director of City Management and Customer Services	34,523	(17,397)	17,126	32,071	(19,413)	12,657	2,452	2,016	4,469
Executive Director of Corporate Services	1,475	0	1,475	711	0	711	764	0	764
Executive Director of Growth, Planning and Housing	52,483	(31,751)	20,732	28,868	(14,742)	14,126	23,615	(17,010)	6,606
		0							
SERVICE AREA TOTAL	**94,697**	**(54,878)**	**39,819**	**69,432**	**(41,530)**	**27,903**	**25,265**	**(13,349)**	**11,916**
Financing			(39,819)			(27,903)			
Net			**0**			**0**			

City Management and Communities (Stuart Love)

7.2 City Management and Communities covers a wide range of capital schemes relating to sports and leisure, waste management, parks and cemeteries maintenance, library refurbishments, residential facilities improvements, highways assets maintenance and public realm works. The directorate underspent against its revised gross expenditure budget by £2.452m and over achieved its income budget by £2.016m leaving a net underspend position of £4.469m. On a net basis this represents a 26% underspend against a budget of £17.126m. The variance of gross expenditure relates to under spending projects within the categories of:

- Plant improvements: £0.4m
- Parking capital budgets: £0.85m
- Footways maintenance: £0.247m
- Public lighting maintenance: £0.244m
- Oxford Street West: £0.568m
- Westbourne and Paddington: £0.400m
- Queensway street scene: £0.250m
- Moberly Leisure Scheme: £0.9m

7.3 Offsetting these underspend variances were some areas of over-performance where budgets previously re-profiled were able to deliver over and above the revised budget. These were primarily a number of Bridges and Structures projects totalling £850k.

7.4 The surplus variance on income of £2.016m relates predominantly to circa 65 externally-funded schemes (such as Developer-funded Footways works) that have come in or commenced during the year which have raised external income levels above the revised budget figure. A review of the highways element of the capital programme is starting to review the profiling and grouping of the schemes.

Growth, Planning and Housing (Ed Watson)

7.5 The revised gross budget for capital expenditure in GPH was £52.483m, the outturn was £28.868m producing an overall variance of £23.615m. The main reason for this was the Affordable Housing Fund (AHF) which has been re-profiled to 2016/17 caused by delays in Westminster Community Homes (£5m) Housing Infill Programme and in Dolphin square progressing its Incubator scheme (£18m).This was partly offset by an additional +£2m spend upon acquiring TA properties for temporary accommodation, where 40 properties rather than 37 were purchased and the average cost was £27k more than budget due to market conditions.

7.6 Minor variances included underspends of (£434k) on the new Tresham House community centre where the final costs out-turned at £4m. There was also slippage of £129k on feasibility costs for the new Marylebone library (budget £590k), and £600k on the Sir Simon Milton Westminster UTC (budget £3.9m). These were offset by increased in year expenditure against expectation of £1.4m on site assembly costs at Huguenot house (approved budget £1.1m) where spend is largely determined by opportunity, and five properties became available and were purchased in year. The landlords responsibility budget of £2.9m underspent by £2m, this budget is essentially resources that can be drawn down if required to undertake essential repairs on corporate property. The forward management plan a contractually committed works budget of £1.6m managed by AMEY also slipped £742k.

Adult Services (Liz Bruce)

7.7 The 2015/16 final outturn position is a gross capital expenditure over achievement against net budget of £170k or £183k on a net basis. This variance to revised budget is because of a late addition of a grant funded Resources Allocation System in Period 11 (£39k) and the Barnard & Florey reconfiguration (£0.182m) which had been slipped into 2016/17 due to issues related to permissions and extension of leases which incurred more expenditure against programme than planned. A number of other small project variances make up the balance.

Children's Services (Andrew Christie)

7.8 The Children's Services capital programme delivered £7.521k of works in 2015/16, of which £7.223k was funded externally and £297k by the Council's own funds. Of the £7.520k, £6.414k was spent on projects delivering additional school places, whilst £1.106k of refurbishment works were delivered across schools (£883k) and non-schools sites (£223k).

7.9 The variance to revised budget of £1.396m is materially explained by an overachievement against programme of the final school in the Building Schools for the Future programme (Quintin Kynaston) of £1.778m. The remainder of the variance is a result of various other smaller project underspend variances which offset this to return to the £1.396m outturn.

7.10 Income varied by £1.658m primarily because of the grant income associated with the £1.778m Quintin Kynaston BSF project. The overall net position was therefore £262k.

Corporate Services (Nick Dawe)

7.11 At the end of March 2016 Corporate Services year end capital spend was £711k which compared to the revised budget of £1,475k. The main reason for this under spend of £764k was the reclassification of one project from capital to revenue which is explained below.

7.12 In 2015/16 a capital budget of £790k was created for Office 365 and Strategic Infrastructure Platform (SIP). The nature of the expenditure was deemed to be revenue and was funded by underspends as the council is procuring a service from a provider and not owning an asset. In addition, there was an under spend of £10k relating to software licences.

7.13 The key capital projects related to data centre and network refresh which made up £541k of the total spend of £711k. The data centre and network refresh covered equipment refresh, planned activity for transition away from VMB/Ericsson contracts and general LAN switch updates which are not covered by the City Hall refurbishment programme e.g. Lisson Grove. Also work was under taken on the existing Westminster Netcall platform and a telephony software upgrade under the existing Ericsson contract. A further £112k was been incurred on the purchase and configuration of computers for end users. The remaining balance was made up of smaller ad hoc projects.

8 **Housing Revenue Account**

8.1 This section details the Housing Revenue Account year end position for 2015/16.

Revenue Expenditure

8.2 The HRA commenced the year with some significant financial challenges as a result of continuing policy and legislative changes from Central Government. However, the operating position for the year culminated in a surplus of £1.380m, which represented an adverse variance of £6.6m from budget. This is mainly due to lower than expected recovery of leaseholders major works income as a result of slippages in the last and current year capital programme, lower than expected net rental income due to higher right to buy (RTB) and discretionary stock disposals and higher depreciation charges for the dwelling stock. These adverse variances are partially compensated for by lower than expected repairs and maintenance costs and release of lessee bad debt provision that is no longer required.

Capital Expenditure

Table 3 HRA Capital Outturn - 2015-16

Description	Revised Budget £'000	Forecast Outturn £'000	Variance £'000
Major Works	46,500	29,887	(16,613)
Regeneration/Renewals	28,686	15,612	(13,074)
Other Projects	18,257	9,187	(9,070)
Total Capital Expenditure	93,443	54,685	(38,758)

8.3 The HRA Capital outturn was £54.6m against a revised budget of £93.4m, resulting in a variance of £38.8m, see table above. This overall variance is made up of £16.6m on major works to existing stock, £13.1m on Regeneration and Renewal schemes and £9.1m on non-delegated schemes. It is anticipated that this slippage will be reviewed and re-profiled in future years.

8.4 The major works variance is largely the result of a number of factors including the need to re-scope and repackage schemes in order to reduce the impact of multiple leaseholder bills, and to protracted leaseholder consultation processes that have delayed some schemes getting on site.

8.5 The regeneration and renewal variance is made up of variances on Ebury Bridge £9.7m, Lisson Arches £2.4m, Tollgate Gardens £1.8m, Parsons North £0.7m and Luton St £0.6m along with some other smaller variances.

- Ebury Bridge – The £9.7m slippage is due to delay in completing the compulsory purchase order (CPO) of 31 of the 66 properties planned buybacks, decanting of tenants and the Soho block acquisition. The construction programme originally envisaged to commence on site in 2015/16 is now likely to be delayed into 2017/18 depending on the rephrasing option selected and procurement route to secure a developer. The unspent buyback budget will be carried forward to meet future buyback costs.

- Lisson Arches - The £2.4m slippage is due to delay in completing enabling works as the build programme is now expected to commence in 2016/17. The unspent enabling works budget will be carried forward to complete enabling works in advance of the build programme.

- Tollgate Gardens – The £1.8m slippage is due to delay in completing buyback of units for Tollgate Gardens. A Letter of Intent is underway that provides pre-construction services under the development agreement. Buy-backs are expected to re-commence in mid-2016 so the unspent budget will be carried forward to meet the buyback costs.

- Parsons North – The £0.7m slippage is due to delay in securing a development partner. The unspent budget will be carried forward to meet project commitments.

- Luton Street – The £0.6m slippage is due to delay in completing enabling works. The unspent budget will be carried forward to meet project commitments

8.6 The £9.1m variance mainly relates to slippage related tor Ashbridge £6.9m and the Infill scheme £0.5m as both these projects are slow to start plus slippage for the Self financing scheme £1m all of which are to be carried forward to 2016/17. The planned acquisitions for Dudley House and Moberly/Jubilee are now complete and no further costs are expected in the HRA. The Edgware Road redevelopment is being re-scoped and reports an underspend.

9 Balance Sheet

9.1 The Balance Sheet net assets moved from £1,777m in 2014/15 to £1,898m in 2015/16. This is mainly due to cash/investment balances increasing year on year and liabilities decreasing following a reduction in short term borrowing and revenue receipts in advance.

9.2 There was an increase in the Council's fixed asset base due to capital expenditure incurred in Westminster's City for All capital programme.

A summary position is shown in **Table 5** below:

Table 4 – Balance Sheet Summary

31 March 2015 £'000		31 March 2016 £'000	Movement £'000
	ASSETS		
	Non-current		
1,937,025	Property, plant and equipment	1,952,377	15,352
42,746	Heritage assets	42,746	-
402,880	Investment property	405,269	2,389
2,394	Intangible assets	1,830	(564)
40,773	Long-term investments	45,916	5,143
24,573	Long-term debtors	12,394	(12,179)
2,450,391	**Total long term assets**	**2,460,532**	**10,141**
	Current		
344,685	Short-term investments	514,833	170,148
316	Inventories	235	(81)
122,302	Short-term debtors	137,666	15,364
252,942	Cash and other cash equivalents	117,580	(135,362)
1,950	Assets held for sale	2,250	300
722,195	**Current assets**	**772,564**	**50,369**
	LIABILITIES		
33,902	Short-term borrowing	2,109	(31,793)
266,481	Short-term creditors	259,931	(6,550)
55,391	Revenue receipts in advance	6,151	(49,240)
355,774	**Current Liabilities**	**268,191**	**(87,583)**
221	Long-term creditors	202	(19)
120,725	Provisions	153,936	33,211
251,520	Long-term borrowing	251,465	(55)
641,746	Other long-term liabilities	605,540	(36,206)
25,157	Capital receipts in advance	55,388	30,231
1,039,369	**Long-term liabilities**	**1,066,531**	**27,162**
1,777,443	**Net assets**	**1,898,374**	**120,931**

10. Cashflow Outturn

10.1 The Council's level of cash and cash equivalents (that is, investments that mature in no more than three days) moved from £252.9m in 2014/15 to £117.6m in 2015/16.

10.2 There was a net outflow of £173m as the Council used its cash reserves to make short-term investments (less than one year). This was offset by capital receipts in £86m for use by the Council for investment in its capital programme.

11. Pensions

11.1 The Pension Fund annual accounts for 2015/16 were produced and submitted to the same timescales as the council's main accounts. As at the 31 March 2016, the market value of the Fund was £1,066m compared to £1,099m at the start of the financial year. This reduction of £33m can largely be attributed to the disinvestment of assets to cover cash flow requirements. There is a monthly shortfall of £1.5m-£2m which is required to pay the pension benefits and this led to a withdrawal of assets amounting to £25m over the year.

11.2 The Fund consists of approximately 70% allocation to equities. Over the final quarter of the year, equity markets have been particularly volatile with the MSCI World index falling more than 11% between the start of 2016 and mid-February, before rebounding to end the quarter down -1.96%. There were no changes to the fund managers during the year.

11.3 The Fund's actuary, Barnett Waddingham, estimate the net liability of the Fund as at 31 March 2016 to be £501m compared to £517m the previous year. Their estimate of the duration of the Fund's liabilities is 17 years.

12. Staffing Implications

12.1 It is undoubtedly the case that this accelerated timescale and enhanced quality could not have been achieved without the drive and support of the finance staff whose attitude and commitment has been exemplary.

13. Recommendation to Committee

13.1 That the Audit and Performance Committee notes the 2015/16 accounts.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Steven Mair 020 7641 2904

BACKGROUND PAPERS

Appendix 1
Westminster City Council Statement of Account including Pension Fund Accounts 2015/16

See link below:

http://transact.westminster.gov.uk/docstores/publications_store/accounts/annual_accounts_2015_16.pdf

City of Westminster

Committee Report

Meeting:	Audit and Performance Committee
Date:	12th May 2016
Classification:	General Release
Title:	Audit Findings Report - from Grant Thornton
Wards Affected:	All
Financial Summary:	N/A
Report of:	Steve Mair, City Treasurer

1. Executive Summary

1.1 The attached report from Grant Thornton summarises the key findings arising from their audit work in relation to the Council's 2015/16 financial statements and those of the Local Government pension Scheme it administers.

2. Recommendations

2.1 That the Committee consider the Audit Findings report from Grant Thornton, accepts the recommendations and notes the Council's response.

3. Reasons for Decision

3.1 As part of the Council's accelerated accounts closure programme the Committee has the opportunity to review the findings of the audit of the Council's 2015/16 financial statements.

4. Background, including Policy Context

4.1 The Audit Findings Report from Grant Thornton is attached for the Committee's consideration and also for that of the City of Westminster Pension Fund.

5. Financial Implications

5.1 There are no direct financial obligations arising from this report.

6. Legal Implications

6.1 The Committee will formally meet to finalise the accounts on the 14th July 2016. This meeting represents the effective closure of the audit period. which is after the end of the Council's inspection period which concludes at 4pm on the 14th July. There are therefore no formal legal implications until this time.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

David Hodgkinson at dhodgkinson@westminster.gov.uk or 0207 641 8162

APPENDICES

1. Grant Thornton Audit Findings Report 2015/16
2. Grant Thornton Audit Findings Report 2015/16 for the City of Westminster Pension Fund

The Audit Findings for Westminster City Council

Year ended 31 March 2016

May 2016

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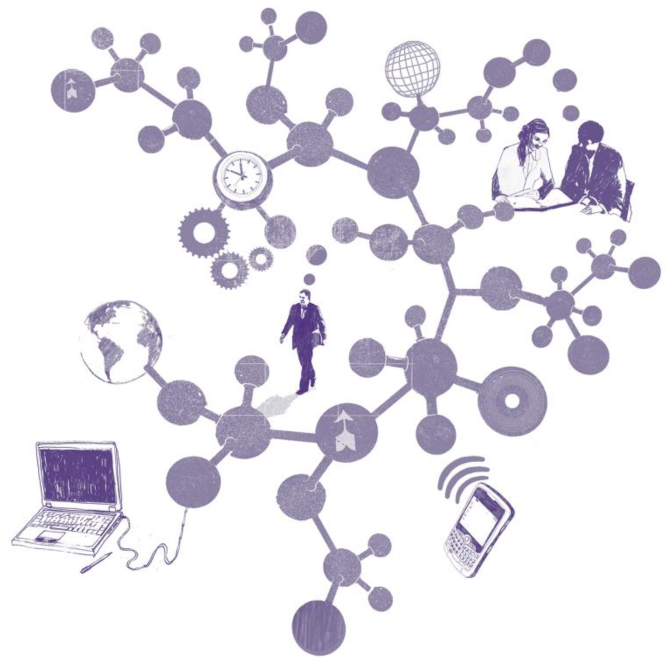

Private and Confidential

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12 May 2016

Dear Sirs

Audit Findings for Westminster City Council for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Westminster City Council, the Audit and Performance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

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

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 primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control 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.

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

Yours sincerely

Paul Dossett

Engagement lead

Contents

Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of Westminster City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. For audited bodies, other than health service bodies, we are required to provide a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should to be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have changed our audit approach which we communicated to you in our Audit Plan dated 3 February 2016. As part of the financial statements planning we identified the provision for national non-domestic rates as an **additional** significant risk and enhanced the level of testing planned on the provision in line with the ISA requirements. The increased level of risk following receipt of the draft accounts was due to the material movement in the NNDR provision.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the critical judgements made by management, including the valuation of PPE
- sample testing of journals, cash, operating expenses, creditors, income and debtors
- review of the final version of the financial statements and revised trial balance
- review of revised version of the Annual Governance Statement
- review of the PWC assurance report for IAS19 disclosures (due at the end of May 2016) and testing of the assumptions made by the Council to the report

Items due for July 2016:

- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion and
- Whole of Government Accounts.

We received draft financial statements on 9 April 2016 which is nearly three months ahead of the statutory deadline for Local Authorities. We received the majority of the working papers for the commencement of our audit visit. The Council has proactively managed the risks arising from the managed services contract during the year by carrying out extensive sample testing of the transactions and working with BT to correct data issues and strengthen the controls in the ledger. This enabled them to meet the early close timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2016 recorded net expenditure of £283,563k. We have recommended a small number of disclosure amendments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council prepared a good quality set of de-cluttered draft accounts for audit by 9 April 2016
- the supporting working papers were of a high quality
- as part of the accounts preparation a small number of entries in the draft financial statements were not entered in to the ledger; the Council has a list of journals and are going to post these to the ledger
- disclosure around the critical judgements made by management in preparing the financial statements have been enhanced in the final version.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- whether the Narrative Report meets the requirements of the CIPFA Code and is consistent with the audited financial statements
- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- cross entity journals for Westminster City Council have being posted during 2015/16 (which balance across the tri-borough ledger but have to be reconciled back to the impact on Westminster)
- a number of journals have not been processed through the ledger before the draft accounts were provided to audit

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

During the course of our audit we were informed of an issue that has given rise to an objection under the Audit Commission Act 1998 in respect of prior year financial statements that have not yet been formally closed.

We have been working with a local elector to decide upon an objection relating to the 2012/13 to 2014/15 financial statements. At this stage, we have not received any formal objections to the 2015/16 financial statements. We will update you on the conclusion reached at the July Audit and Performance Committee.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the City Treasurer.

We have also discussed the issues arising from our additional statutory powers and duties with the City Treasurer during the year.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the City Treasurer and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
May 2016

Section 2: Audit findings

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Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13,910k (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to £15,344k in line with the increase in gross revenue expenditure in 2015/16 (remaining as 1.5% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts with a balance sheet value in excess of £1billion and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £695k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we did not identify any items where we decided that separate materiality levels was appropriate. There has been no change to this decision for he financial statements audit.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 30	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Westminster City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition in the Council is limited • the culture and ethical frameworks of local authorities, including Westminster City Council, mean that all forms of fraud are seen as unacceptable. There is an increased risk for revenue recognition related to the managed service contract which we have addressed under the separate significant risk.	Our audit work to date has not identified any issues in respect of revenue recognition. Our sample testing of grants and other income is in progress. We are currently waiting for the outstanding evidence to support the income in the financial statements. We have selected a sample of opening and closing debtors and are waiting for supporting documentation.
2.	**Management over-ride of controls** Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.	We have undertaken the following work in relation to this risk: • Review of entity controls in relation to journal transactions • Testing of journals entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions	Our audit work to date has not identified any evidence of management over-ride of controls. However, our review of journal controls and testing of journal entries has identified a weakness in the system: • cross entity journals can be raised across the tri-borough councils In addition, the Council implemented a manual authorisation process for journals during the closedown period. Our testing has not identified any errors to date in the authorisation of these journals. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Valuation of property, plant and equipment (PPE)** The Council revalues its assets on a rolling basis over a five year period although for 2015/16 it requested that the current valuer review a sample of assets from the 4th and 5th year of the valuation cycle to ensure they were materially fairly stated. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements. The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.	We have undertaken the following work in relation to this risk: • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13 • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value	Our testing of the PPE valuation process is still in progress. We have identified an error in Other Land & Buildings General Fund cost of valuation section as a £17m asset was duplicated and two pieces of land totalling £0.9m were incorrectly included in the asset register and note 21C. See Adjusted Misstatements table on page 21 for further information. Our testing of investment properties identified an error in one of the asset numbers provided to the valuer. As all investment properties were valued in the year there is no misstatement in the overall valuation in the financial statements. however, there is an error at the individual asset level in the FAR.

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Audit findings against significant risks continued

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

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
4.	**Managed services partnership** *Risk of incomplete transfer of data from the old system to the new system*	We have undertaken the following work in relation to this risk: • Gained an understanding of the Council's relationship with the managed service provider for the service issues currently being faced in delivering the expected contractual commitments for the council • Reviewed the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT • Reviewed the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 • Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion • IT audit review of the general controls in operation in the financial ledger and overall IT control environment. IT assurance over the completeness of the ledger • Substantive testing of all items in the financial statements that are greater than tolerable error set for the Council accounts	The Council has proactively managed the system and service delivery issues throughout the 2015/16 financial year. Officers of the Council have regularly visited the BT offices to ensure that improved system controls are implemented and BT staff have the required knowledge about Local Authority accounting. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit & Performance Committee to update TCWG on progress being made to improve service delivery for the year end. The Council identified that there were significant issues with the transactional processing in the system and undertook extensive appropriate sample checking to ensure corrective action was taken by BT. In addition, they took action to mitigate the key error areas by performing manual processes locally for monitoring the financial information during the year. The finance team reviewed 16 key financial transactional / processing areas during November, February and April to cover the full financial year. The level of errors in the transactional testing by year end had significantly reduced due to the enhanced control environment after the November testing had been fed back to BT. Due to the work of officers to give the s151 officer confidence in the data in the GL, the Council were able to deliver the draft accounts in line with their ambitious closedown timetable. Internal Audit carried out a review of the finance testing and concluded that a robust process had been followed. The Head of IA Opinion is "the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as 'amber' and 'red' all of which have been reported to A&PC". Management acknowledges in the Annual Governance Statement that there is the likelihood of error remaining in the GL and that further work is needed in 2016/17 to ensure service provision is at the required level. Our IT colleagues have carried out assurance work over the completeness of the transactions in the ledger with BT and Council officers. We obtained assurance that the 2015/16 ledger was complete which enabled us to select samples for testing. Our audit work has not identified any significant issues in relation to the managed services risk. We have identified internal control weaknesses in relation to journal procedures and reported these in the Internal Control section of this report (page 20).

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New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan.

We identified a new significant risk during the financial statements planning process. The increased level of risk following receipt of the draft accounts was due to the material movement in the NNDR provision.

	New risk identified	Work completed	Assurance gained and issues arising
1.	**Provision for National Non-Domestic Rates (Business Rates) – SIGNIFICANT RISK** • The Council's provision for business rates is the largest in the country and is a highly material balance in the financial statements. The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision. • The Council collected £1.747 billion in business rates in 2015/16. The provision in the 2015/16 financial statements increased by £96m during the year (Collection Fund Accounts Note 3). The Council's share of the business rates collected and provision is 30% which equates to a total provision of £117.9 million (Note 32).	• Review of management's processes and assumptions for the calculation of the estimate • Testing of the calculation and agreement to supporting documentation • Review of the disclosures made by the Council in its financial statements	We have received managements judgements and assumptions made in calculating the provision and confirm we are satisfied that the provision is materially fairly stated and the assumptions made are reasonable.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • substantive sampling of payroll system to payslips and contractual records • reconciled the total pay per the payroll system to the general ledger	Our audit work to date has not identified any significant issues in relation to the risk identified. There are four contracts outstanding to complete our testing.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • substantive sampling of payments throughout the year and year end creditors • testing for unrecorded liabilities	Our audit work to date has not identified any significant issues in relation to the risk identified. Testing of the operating expenditure payments made in the year and opening / closing creditors is in progress.
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • sample testing of welfare benefits expenditure • reviewed the year end reconciliation between the housing benefits system and the general ledger	Our audit work has not identified any significant issues in relation to the risk identified. Our testing has identified one fail in the rent allowance benefits testing. There is no impact on the expenditure recorded in the financial statements so we have concluded the statements are materially fairly stated. We will follow up the error as part of the Housing Benefit claim work later in the year.

Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services	We have discussed the implementation issues of the general ledger and the mitigating actions taken by management in our monthly liaison meetings with the finance team. We have set out our conclusions of the management response to the risks identified in the system during the financial year against the Managed Services significant risk on page 10.

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service. • 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: (i) The Council will comply with the conditions attached to the payments; and (ii) The grants or contributions will be received.	• The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2015/16 • There is limited judgement involved in recognising income in the financial statements. Debtors are supported by invoices and income accruals are only created where income is certain to be collected or where adequate provision will be made for non-recovery • Our testing of government grants and contributions has not identified any instances of improper revenue recognition.	● Green
Judgements and estimates	Critical judgements include: • going concern review • recognition of school assets • whether group accounts should be prepared • tri-borough working arrangements Key estimates include: • PPE – useful lives and valuation • pensions liability • business rates provision • fair value estimations	• Critical judgements and estimation uncertainty are disclosed in notes 3 and 4 respectively of the financial statements • We have requested that management enhances the disclosure within note 3 to set out the judgements in greater detail for the school assets and group accounts considerations.	● Green

Assessment
- ● Marginal accounting policy which could potentially attract attention from regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

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Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	The Council has set out its judgement for schools accounting in Note 3. It recognises Community Schools on its Balance Sheet and has not recognised assets relating to Academies, Voluntary Aided, Voluntary Controlled or Free schools as it is of the opinion that these assets are not controlled by the Council.	The Council has included in the revised financial statements an expanded disclosure of their judgements made over schools consolidation that more fully reflects the decisions taken.	● Green
Going concern	Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years. We have not identified any issues which we wish to bring to your attention.	● Green

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Assessment
● Marginal accounting policy which could potentially attract attention from regulators
● Accounting policy appropriate but scope for improved disclosure
● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Audit and Performance Committee and been made aware of all frauds occurring during the year. None of which were of a significant nature to impact on our audit opinion. 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.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation will be requested from the Council for July 2016. • In particular, representations have been requested from management in respect of the significant assumptions used in making accounting estimates for – Business rates provision – Valuation of property, plant and equipment and investment properties – All information relating to the managed services has been provided to us in full.
5.	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the custodian, fund managers, bank and borrowing institutions. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however 4 requests from the fund managers and 5 from borrowing institutions were not received by 4 May 2016 so we undertook alternative procedures, including reviewing the year end statements sent to the Council to confirm the balance as at 31 March 2016.
6.	**Disclosures**	• Our review found no material omissions in the financial statements.

Other communication requirements continued

	Issue	Commentary

7.	**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 meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit
		  • The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading.
		• We have not identified any issues we would be required to report by exception. We have requested a small number of enhancements to the Narrative Statement.

8.	**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. As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • The WGA consolidation pack is due to be submitted in July 2016. We will audit the pack in order to meet the reporting deadline of end September 2016.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for the significant and other risks identified (Employee Remuneration, Operating Expenses and Welfare Benefits) as set out on pages 10-14 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Deficiency	• The Agresso accounting system allows for cross entity journals to be posted so that the debits and credits are not equal within the Westminster City Council ledger. • The journals balanced over the tri-borough general ledger as the system allows for journals to be posted across the three councils / pension funds	• Cross entity journals should be prevented from being posted in the ledger
3.	● Deficiency	• A small number of journals were not processed through the ledger before the draft accounts were provided to audit. The Council will post the journals and provide a revised trial balance to audit.	• All journals should be processed through the ledger before the financial statements are submitted to audit

Assessment
- ● Significant deficiency – risk of significant misstatement
- ● Deficiency – risk of inconsequential misstatement

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.

Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed 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 surplus/deficit for the year.

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Impact on total net expenditure £000
1.	No adjusted misstatements have been identified as at 5/5/16			
	Overall impact	**£Nil**	**£ Nil**	**£ Nil**

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Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The [ABC] Committee is required to approve management's proposed treatment of all items recorded within the table below:

	Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
1	No unadjusted misstatements have been identified as at 5/5/16			
	Overall impact	**£ Nil**	**£ Nil**	

Misclassifications 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.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Misclassification	50,436	Revaluations (Note 21B)	Assets under construction which have been completed in the year and transferred to other asset categories and additions in year have been disclosed as revalued in the note. As the assets are not revalued in 2015/16 they should be disclosed in the 'held at historic cost' line with narrative below the table explaining the amounts. Amendments to historic cost and from 31 March 2016 are: Other Land and Buildings (HRA) of £42,929k and Other Land Buildings (GF) of £7,506k.
2	Disclosure	N/A	Revaluations (Note 21B)	The explanation for council dwellings valuation process needs to be updated to reflect the actual valuation approach for 2015/16, including the date and type of valuation used for the closing balance.
3	Misclassification	17,712	Property, Plant and Equipment (Note 21C)	The note and asset register includes a duplicate asset totalling £17m and a piece of land totalling £0.712m that relates to an asset already transferred off the Balance Sheet. The draft note accounted for the removal of these assets as a downward revaluation in the revaluation reserve and CIES whereas it should have been shown as an 'Other Movement in Cost or Valuation'. Accumulated depreciation totalling £0.9m will also be amended. A narrative description of the movement will also be added to the note.
4	Disclosure	4,000	Financial Instruments (Note 24)	The Fair Value of Financial Assets and Liabilities disclosure does not include a finance lease totalling £4m in the carrying value of the finance lease liabilities. This understatement affects the 2014/15 and 2015/16 disclosure.

Section 3: Value for Money

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 ('the Act') and the NAO Code of Audit Practice ('the Code') to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified one significant risk in relation to the capital programme business case process which we communicated to you in our Audit Plan dated February 2016. We confirmed that following the completion of our detailed risk planning in April 2016 we had not identified any new significant risks.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

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

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

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address the risk	Findings and conclusions
Significant capital projects The programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised that there was a weakness in arrangements and introduced a new business case process for all major schemes.	We reviewed the new business case arrangements for awarding capital programme expenditure to projects to establish whether the arrangements for identifying, managing and monitoring the project from the initial stage are appropriate. We reviewed one business case that has been going through the new process to date – refurbishment of Westminster City Hall.	The Council recognised the need for tighter controls around the capital programme as the level of projects and spend has significantly increased since the City for All plan was launched a year ago. The plan focuses on key regeneration plans to ensure the City continues to be a hotspot for business, retail and tourism. A new business case template for all major capital schemes was developed during the year. Three are three business case stages: strategic; outline; and full. The new template requires there to be greater scrutiny and information provided at the outline business case stage. We have reviewed the template and concluded that this stage has been split into the correct five key areas: strategic; economic; commercial; financial; and management. These areas ensure that all key information is provided to the Executive Director and Cabinet Member for making the decision about investment. The Council has a Capital Review Group which provides challenge and scrutiny of the business cases. This has an oversight of all capital schemes and monitors progress at the monthly meetings chaired by the Cabinet Member of Finance and Corporate Services. The ward member is also asked to be involved at the outline business case stage to ensure greater member and resident involvement in the scheme. One capital scheme has started to go through the outline business case model. The Westminster City Hall refurbishment programme case sets out clearly the options available to the decision maker with cost benefit and sensitivity analysis of these options. The case is thorough and has been shared with Cabinet Members to ensure robust scrutiny is given to it before the Cabinet meeting to make the final decision. To ensure there is sufficient guidance available, the major projects team has provided training to officers who will be completing the templates and on-going support will be provided by them as the Council recognises this is a major change in the way capital schemes are developed and managed. There were five key capital projects for 2015/16 and these were delayed as a decision was made to put all of them through the new business case process. This is the key reason for the capital programme slippage. This decision enables the Council to give full consideration and have a robust audit trail for projects in the future. The Council has also made a decision to only implement this for new projects and is not going back to review previous project cases. This is a reasonable approach as the level of capital investment was planned to be significantly higher from 2015/16 onwards. On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.

Significant qualitative aspects

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

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the robustness of the new business case process (see findings on page 26)
- review of the financial outturn position for 2015/16 and financial planning for 2016/17
- review of the significant governance issues raised by the Council in the Annual Governance Statement 2015/16 to determine the impact on the overall vfm conclusion
- obtaining an update on the previous auditor conclusion findings.

Financial Outturn 2015/16

The Council planned for an underspend against budget throughout the financial year and delivered a revenue outturn position of +£5.54m. As a consequence of the strong financial monitoring during the year and delivery of an underspend, Cabinet have approved that the full amount is transferred in to the General Fund Reserves to increase the closing balance to £41.58m. This will provide the Council with on-going financial resilience which is important over the medium term to ensure the Council can meet the challenges it faces in setting the budget from 2018/19 and beyond. The predictions of an increasingly austere economic climate are in line with our expectations and the increase in the General Fund Reserves gives additional resilience to management and members.

The planned capital programme budget for 2015/16, including slippage from 2014/15, totalled £188.3m. During the financial year the Council recognised that this level of capital spend would not be delivered due to the increased governance in the management of the capital programme (see significant risk findings) and the budget was revised downwards to a forecasted outturn of £75.46m at the end of January. The Council delivered an outturn position of £69.43m. This is a significant slippage from the original budget but was a decision during the year by management and members to ensure that the capital projects were given robust consideration to deliver value for money before project work began.

We do not have any concerns arising from the 2015/16 budget outturn position over the Council's arrangements for delivering economy, efficiency and effectiveness.

Financial Planning 2016/17

The Council approved the revenue and capital budgets in February 2016. The revenue budget covers a four year period (2016/17 to 2019/20) although the final year is high level predictions and the capital budget plans slightly further to 2020/21. The Council has identified a savings target of £117m for the three year period to 2018/19 allocated respectively as £33m, £34m and £50m. It has fully identified the savings plans for the coming year and is confident in the robustness of the plans for 2017/18. It has recognised that there is a budget gap for 2018/19 and that this year will be difficult to meet the financial challenges and service delivery as it has continued to deliver since 2010. The Council started to develop a 10 year view of its financial position during 2015/16 and is looking to enhance the predictions during the year to ensure the future challenges are met.

The Council has planned a balanced budget for 2016/17 with a contribution to the General Fund Reserves forecast at year end. A high level of the budget planning process and assumptions underpinning the budget gives assurance that the process is robust and comprehensive, considering both the risks and opportunities at a strategic and operational level across the Council.

The Council's fully funded five year capital programme will deliver £1.72bn (gross spend) of projects to meet the City for All plan. The Council has significant regeneration projects planned over the period to help it maintain its business, retail, entertainment and tourism global recognition.

The Budget and Performance Task Group challenges the Cabinet Member and Executive Director in February over the assumptions and saving plans underpinning the 2016/17 budget figures. This process provides a good level of scrutiny to the budget before the Cabinet and Full Council approval. The group comprises of five councillors and is led by the Cabinet Member for Finance and Corporate Services.

We do not have any concerns arising from the 2016/17 financial planning process over the Council's arrangements for delivering economy, efficiency and effectiveness.

Annual Governance Statement 2015/16

The AGS has been reviewed as part of the opinion audit and we have not identified any non-compliance in the statement. The Council has recognised three significant governance matters for the coming financial year:

- Managed Services: we identified this as a significant risk for our audit opinion in 2015/16. We have set out our findings against this risk on page 12. We are satisfied that the Council has proactively managed the issues arising from the service delivery and has challenged the partner to deliver a higher quality service.
- IT services: Internal Audit review of the IT environment during the year identified two areas of weakness in relation to third party remote access and multi-user logins. We carried out a review of the IT general control environment in April 2016 and did not identify any deficiencies that would impact on the audit opinion or overall conclusion of IT arrangements at the Council so we are assured that the action being taken by the Council has improved the control environment.
- Procurement – Contracts Register (capitalEsourcing): the Council is proactively addressing the risk of information in the contracts register being out of date or incorrect by providing support and training to staff who use the system. The follow up review by Internal Audit at the end of the financial year indicated improved levels of compliance within the system.

We have reviewed these matters and concluded that none of the issues indicate an overall weakness in the Council's arrangements for delivering economy, efficiency and effectiveness nor its arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Value for Money 2014/15 follow up

KPMG identified a weakness in relation to procurement. This emerged from objections relating to the Council's financial statements covering the financial years 2008/09 to 2011/12.

The weaknesses identified by KPMG were in relation to non-compliance with the proper procedures required by the Council's Procurement Code and internal financial regulations, in particular the processes for contract letting, contract variations and for formalising contract documentation. These weaknesses were identified in 2013/14 as part of the investigation in to the matters raised in the objections.

The Head of Procurement has made improvements to the procedures and processes during the year. The previous auditor was able to conclude the investigation and respond to the objections in early 2016. This led to the official closure of the 2008/09 to 2011/12 audit years in March 2016.

We do not have any concerns arising from the follow up of 2041/15 findings over the Council's arrangements for delivering economy, efficiency and effectiveness.

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

- Ensure that all new major capital projects go through the business case process and review the approach after the first project has gone through the full process
- Closely monitor the capital programme to ensure slippage levels are reduced in 2016/17
- Continue to identify revenue savings and efficiencies to ensure the budget gap in 2018/19 is delivered
- Continue to action the planned improvements in the weaknesses reported in the AGS

Management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

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

	Issue	Commentary
1.	**Public interest report**	• We have not identified any matters that would require a public interest report to be issued.
2.	**Written recommendations**	• We have not made any written recommendations that the Council is required to respond to publicly.
3.	**Application to the court for a declaration that an item of account is contrary to law**	• We have not used this duty.
4.	**Issue of an advisory notice**	• We have not used this duty.
5.	**Application for judicial review**	• We have not used this duty.

During the course of our audit we were informed of an issue that had previously given rise to an objection under sections 26 and 27 of the Local Audit and Accountability Act 2014 in respect of prior year financial statements that have not yet been formally closed.

We have been working with a local elector to decide upon an objection relating to the 2012/13 to 2014/15 financial statements. At this stage, we have not received any formal objections to the 2015/16 financial statements. We will update you on the conclusion reached at the July Audit and Performance Committee.

Section 5: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	£
Council audit – scale fee	185,719
Council audit – additional fee	25,000
Grant certification	25,386
Objections from 2012/13 to 2014/15	25,000
Total audit fees (excluding VAT)	**261,105**

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Additional fee

We have agreed an additional fee for the Council audit of £25,000 due to the additional work required to obtain assurance over the completeness of the general ledger and journals population.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers pensions return	3,500
• Pooling of housing capital receipts	4,000
Non-audit services	
• Financial resilience capacity building programme	10,500

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

Section 6: Communication of audit matters

Communication to those charged with governance

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

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

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

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

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

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

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

Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system
Medium - Effect on control system
Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1.	Cross entity journals should be prevented from being posted in the Agresso Ledger	Medium	The standard journal process has built in controls which prevent cross entity posting. The issues experienced in year were as a result of the requirement to use a separate process to bypass the system performance issues. This was only in place for 5 weeks and has since been removed. The Council monitored transactions throughout this process which resulted in these items being identified and amended appropriately. For payroll related transactions there are controls in place to ensure each payroll run is reviewed before being finalised to ensure any potential cross entity transactions are identified and corrected. In addition there are also daily trial balance reports run to ensure the entity's overall trial balance is working correctly.	Already in place – MSP/BT
2.	All journals should be processed through the ledger before the financial statements are submitted to audit	Medium	The Council implemented a strategy of controlling the final few technical adjustments which meant a small number of journals had not been processed through the ledger at the end of the year. There is a clear audit trail available which details these items between the general ledger and the statement of accounts. The general ledger will be fully updated for these issues before audit sign off. In the Council's drive to improve the efficiency and automation of the accounts process the ledger will always the source document used to produce the statements.	On-going - Corporate Finance
3.	Ensure that all new major capital projects go through the business case process and review the approach after the first project has gone through the full process	Low	The strategy now in place is for all major projects to be approved in this manner. The Council has regular review points in place to monitor projects throughout the process and a full review of projects on completion will provide an opportunity to review and improve the process.	Already in place – Major Projects team

Appendix A: Action plan continued

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
4.	Closely monitor the capital programme to ensure slippage levels are reduced in 2016/17	Medium	The slippage experienced in 2015/16 was in the main due in a number of external factors outside the control of the Council. The Council has developed a process to provide a detailed quarterly review of capital schemes to identify projected slippage and ensure budgets are aligned as appropriate. The business case approach mentioned above will aid in increasing the level of detail in which each project is monitored and budgets aligned.	July 2016 – Corporate Finance/FMs
5.	Continue to identify revenue savings and efficiencies to ensure the budget gap in 2018/19 is delivered	Medium	Finalising the future savings required to meet the revenue budget gap in future years is a key priority. The Council is already holding regular review meetings in order to find these savings to establish requirements and is considering the possibility of the fixed four year settlement.	Already begun
6.	Continue to action the planned improvements in the weaknesses reported in the AGS	Medium	The AGS is produced in conjunction with the internal audit function and any suggestions included within this will be acted upon. The Council has demonstrated in its work carried out testing the new Agresso system the determination to ensure the maximum assurance can be placed on the processes and procedures in place.	On-going

Appendix B: Audit opinion

We anticipate we will provide the Council with an unmodified audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTMINSTER CITY COUNCIL

We have audited the financial statements of Westminster City (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the 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.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer 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 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by City Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Westminster City as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 24 of the Act; or
we make a written recommendation to the Authority under section 24 of the Act; or
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority 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.

We are required under Section 20(1)(c) of the Act 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.

Scope of the review of the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code of Audit Practice"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects, Westminster City Council has put in place proper arrangements for securing value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for Westminster City Council for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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15 July 2016

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