



City of Westminster

Follow on Agenda

Title: **Audit and Performance Committee**

Meeting Date: **Tuesday 9th May, 2017**

Time: **7.00 pm**

Venue: **Rooms 3 & 4 - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**

Members: **Councillors:**

Ian Rowley (Chairman)
Lindsey Hall
Judith Warner
David Boothroyd

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.

**Tel: 020 7641 3160 Email: rsegal@westminster.gov.uk
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 Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

Item

- | | | |
|-----------|--|------------------------|
| 4. | Follow on Papers: Annual Statement of Accounts 2016-2017 | (Pages 1 - 14) |
| 5. | Follow on Papers: Audit Findings Report | (Pages 15 - 84) |
| 9. | Follow on Papers: Changes to Tri-borough Shared Services Arrangements | (Pages 85 - 92) |

Charlie Parker
Chief Executive
3 May 2017



City of Westminster

Audit and Performance Committee

Date	9 May 2017
Classification:	For General Release
Title:	2016/17 Annual Accounts and Outturn
Wards Affected:	All
Financial Summary:	This report presents the draft Statement of Accounts for the Council and its Pension Fund and provides a narrative as to the outturn position for the financial year ended 31st March 2017.
The Report of:	Steven Mair, City Treasurer
	Tel: 0207 641 2904
	Email: smair@westminster.gov.uk

1. EXECUTIVE SUMMARY

- 1.1. The General Fund revenue position has seen a net outturn of £17.201m underspend against approved budget. This compares to a Period 10 (January 2017) forecast underspend of £15.273m. The most significant change between Period 10 and outturn being the impact of the reduction in debtors – arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts.
- 1.2. As set out in the 2017/18 Budget Setting and Council Tax Report (approved by Full Council in March 2017) £10.000m of the overall General Fund net underspend has been earmarked as a contribution towards the Pension Fund deficit recovery. Approval for such a lump sum contribution was contingent on the finalisation of the outturn position being broadly as then forecast – this being the case.
- 1.3. Net of the lump sum contribution to the pension fund, the remaining revenue underspend for the General Fund is thus £7.201m and represents 0.8% of the approved gross 2016/17 budget. This amount has been added to the Council's general reserves – rising from £41.575m to £48.777m, again as broadly anticipated and approved in the 2017/18 Budget Setting and Council Tax Report.
- 1.4. The Housing Revenue Account (HRA) revenue outturn position shows a net surplus of £9.980m and compares to a budgeted surplus of £7.340m – a variance of £2.640m (2.6%

of the approved gross expenditure). This surplus increases HRA general reserves from £31.606m to £41.586m.

- 1.5. The gross general fund capital outturn variance of £23.513m represents 15.6% of the approved and re-profiled budget. It should be noted that the capital programme at the start of the year was £351.288m.
- 1.6. The HRA capital programme gross expenditure was £57.559m compared to an approved budget of £64.907m – a gross underspend of £7.348m (11.3%). On a net basis after income budgets of £28.652m and income outturn of £29.043m are taken into account the net variance is £7.739m before borrowing and capital receipts are applied.
- 1.7. The table below summarises the above headline outturn positions:

	Expenditure Budget (£m's)	Income Budget (£m's)	Net Budget (£m's)	Outturn (£m's)	Variance (£m's) (%)	
Revenue						
General Fund	851.304	(851.304)	0.000	(17.201)	(17.201)	(2.0%)
Housing Revenue Account	101.656	(108.996)	(7.340)	(9.980)	(2.640)	(2.6%)
Capital						
General Fund	151.193	(74.794)	76.399	52.886	(23.513)	(15.6%)
Housing Revenue Account	64.907	(28.652)	36.255	28.516	(7.739)	(11.9%)

- 1.8. The accounts have been closed and sent for audit in four working days – three days earlier than in the previous year. External auditors are due to provide a draft opinion on these accounts by the 9th of May, also three days ahead of the prior year performance. The setting of such a challenging timeframe not only sets the Council apart from all other public bodies (and 95% of the FTSE-100), but allows financial management resources to be quickly focussed on supporting services in concentrating on the future rather than the past. A significant service transformational benefit also accrues through the setting of aspirational closure timeframes in so far as it enforces fundamental review of process and procedures and drives best practice.
- 1.9. This report is an abridged version which provides a summarised outturn position. An outturn report with additional detail will be provided for formal approval on the 17th July.

2. BACKGROUND

Financial Context of the Council

- 2.1. The Council is responsible for managing cash inflows and assets exceeding £7bn. A significant element of the cash inflows is £1.8bn of Business Rates, making Westminster the UK's largest collector of Business Rates
- 2.2. The council is the UK's largest collector of Business Rates at £1.8bn, most of which it passes to central government and GLA.
- 2.3. The Council holds £2.6bn in operational and investment property which is actively managed to generate approximately £24m annually to support delivery of services.
- 2.4. Approximately £0.4bn of fees and charges are generated annually to support delivery of services and which also helps keep council tax at the lowest rate in the UK.
- 2.5. Further context around the Council's finances can be found within the City Treasurer's Narrative Report contained within the Accounts. Westminster as an overall entity is responsible for the sound governance of over £4bn in assets and transacts over £3bn on an annual basis
 - £2.1bn Property Plant & Eqpt
 - £0.5bn Investment Property
 - £0.1bn Other Long Term Assets
 - £1.0bn Current Assets
 - £1.3bn Pension Fund Assets
 - £1.9bn Business Rates
 - £0.6bn Grants & Contributions
 - £0.4bn Fees & Charges
 - £0.1bn Council Tax (Incl GLA)
 - £0.1bn Capital Financing
- 2.6. The public inspection period for the accounts is now set nationally and will take place between 5th June and 14th July 2017.
- 2.7. The accounts are shown at Appendix 1 and contain full details of the Council's finances for the 2016/17 financial year.

3. GENERAL FUND REVENUE OUTTURN

- 3.1. The General Fund revenue position saw a £17.201m gross underspend against approved budget, broadly in line with the £15.273m forecast at the end of January 2017. Against a gross controllable expenditure budget of £851.304m, this underspend represents a 2.0% variance.
- 3.2. The overall change in the outturn position between January and March is largely accounted for by impact of the reduction in debtors arising as a result of work undertaken throughout the year to promote the proactive monitoring and recovery of outstanding debts. An inspection of the balance sheet reveals that overall short term debt levels have fallen from £137m to £73m, and the lower quantum and greater assurance that can be placed on those remaining balances have improved the revenue position.
- 3.3. As referenced in the 2017/18 Budget and Council Tax Setting Report, dependent upon outturn being as then forecast, £10.000m of the projected surplus would be used to assist

in alleviating the Pension Fund deficit. Having now closed the accounts and confirmed the gross underspend, it is the intention to make such a payment. In the interim, the £10.000m has been placed in an earmarked reserve for such a purpose. The remaining £7.201m has been credited to the Council's General Reserves – which accordingly rise from £41.575m to £48.777m.

3.4. An analysis of the surplus on the General Fund Revenue Account by Cabinet portfolio is set out in the table below:

	Outturn v Budget (£m's)
Leader of the Council	(1.402)
Deputy Leader & Business, Culture and Heritage	0.639
Public Protection and Licensing	(1.418)
Planning and Public Realm	0.898
Housing	(2.525)
Environment, Sport and Community	(0.963)
Finance, Property and Corporate Services	(2.219)
City Highways	(9.481)
Children, Families and Young People	(0.341)
Adult Social Care and Public Health	(0.389)
	<u>(17.201)</u>

3.5. The following sets out an overview of the principal reasons behind the above variances for each Cabinet Portfolio:

- Leader of the Council
 - (£0.955m) Salary underspends / secondments within the Change Mgmt Team
 - (£0.244m) Vacancy management within PPC Directorate
- Deputy Leader and Business, Culture and Heritage
 - £0.912m Shortfall in Outdoor Media income
 - (£0.240m) Vacancies within Economy and Infrastructure Team
- Public Protection and Licencing
 - (£1.418m) Early delivery of 2017/18 MTP savings and increased income from licencing / fixed penalties for waste enforcement
- Planning and Public Realm
 - £1.000m CIL income lower pending new schemes starting on site
 - £0.345m Building Control income affected by market conditions
 - (£0.491m) Vacancies within Development Planning
- Housing
 - (£1.072m) Supported Housing / Rough Sleeping underspent due to re-procurement, negotiation of contract values and a review of Service delivery models
 - (£0.637m) Affordable Housing budget review incl. bad debt provisions
 - (£0.390m) Housing Benefit adjustments
 - (£0.216m) Departmental vacancies and contract cost savings

- (£0.208m) Homelessness vacancies / funding from DHP
- Environment, Sport and Community
 - (£1.081m) Additional commercial waste income
 - £0.175m Registrars income affected by repairs at venues / delays to implementation of online booking system
- Finance, Property and Corporate Services
 - (£0.468m) Early realisation of CCTV contract savings
 - (£0.311m) Admin margin earned on Comensura / Agency Staff costs
 - (£1.901m) City Treasurer salary savings / interest earnings / contract costs
 - (£2.150m) Impact of reduction in debtors
 - £0.750m GPH savings held centrally but delivered elsewhere
 - £0.517m Delayed implementation of some 16/17 MTP Savings (part yr)
 - £0.631m Major Projects Team income – slippages in capital schemes
 - £0.400m Shortfall on savings delivered through the Link (FM) contract
 - £0.500m City Hall Rent Review
- City Highways
 - (£8.212m) Parking Bay suspensions (£6.4m) / Moving Traffic Contraventions
 - (£1.269m) Highways contract savings / staff savings following restructure
- Children, Families and Young People
 - (£0.619m) BSF Savings / Finance and Resources Team savings
 - £0.327m SEN Casework / Home to School travel costs
- Adult Social Services and Public Health
 - (£0.312m) Adult Social Care strategic commissioning costs / Procurement

4. GENERAL FUND CAPITAL OUTTURN

- 4.1. The General Fund Capital Programme shows a net underspend against 2016/17 approved budget of £23.513m. It is not expected that this in-year underspend is likely to have any significant impact on the Council' long term cost of funding the capital programme.
- 4.2. The table below sets out a summary of the variances between approved capital budgets and outturn by relevant Cabinet portfolio:

	Net		
	Budget	Outturn	Variance
	(£m's)	(£m's)	(£m's)
Deputy Leader & Business, Culture and Heritage	6.742	5.358	(1.384)
Public Protection and Licensing	0.276	0.229	(0.047)
Planning and Public Realm	2.086	0.890	(1.196)
Housing	4.820	5.553	0.733
Environment, Sport and Community	4.930	4.251	(0.679)
Finance, Property and Corporate Services	47.431	30.551	(16.880)
City Highways	9.121	5.342	(3.779)
Children, Families and Young People	0.358	0.138	(0.220)
Adult Social Care and Public Health	0.635	0.574	(0.061)
	76.399	52.886	(23.513)

4.3. The following sets out a summary of the key projects contributing to the above variances:

- Deputy Leader and Business Culture and Heritage – (£1.384m)
 - £0.645m Piccadilly Underpass Digital Media
 - (£1.947m) Various Schemes (Ingestre Court / Air Quality / General / Strand)
- Public Protection and Licensing – (£0.047m)
 - (£0.014m) Disabled Facilities Grants
 - (£0.033m) MTP ICT Capital Spend
- Planning and Public Realm – (£1.196m)
 - (£0.400m) Oxford Street Westminster City Council
 - (£0.215m) Tree Base Improvements
 - (£0.237m) Queensway Streetscape
 - (£0.235m) Thames Area Projects 1
 - £0.148m Newport Place
 - (£0.114m) Bond St & Marlborough Rd
 - (£0.102m) Buckingham Green
- Housing - £0.733m
 - £0.659m Temporary Accommodation Purchases
 - £0.094m Tresham House
- Environment, Sport and Community – (£0.679m)
 - (£0.153m) Moberley Sports Centre
 - (£0.110m) Sports Centre Condition Survey Works
 - (£0.092m) Westbourne Green Skate Park
 - (£0.055m) Westminster Reference Library
 - (£0.052m) Libraries Decoration Programme
 - (£0.044m) East Finchley Wall
- Finance, Property and Corporate Services – (£16.880m)
 - (£10.000m) Pension Fund Contribution
 - (£1.542m) Whitcomb / Huguenot
 - (£1.281m) Lisson Grove Improvements

- (£1.000m) Capital Contingency
 - (£0.649m) Luxborough Development
 - (£0.567m) Forward Management Plan
 - (£0.542m) Mayfair Library
 - (£0.515m) End User Computing Refresh
 - (£0.413m) Landlord Responsibility Works
- City Highways – (£3.779m)
 - (£2.714m) Net reversal of accruals b/f from prior year
 - (£0.655m) Footway Maintenance & Strengthening Programme
 - (£0.407m) Golden Jubilee Footbridge
- Children, Families and Young People – (£0.220m)
 - (£0.220m) Investment & Improvement Programme
- Adult Social Care and Public Health – (£0.061m)
 - (£0.063m) Westmead / Carlton Dene

5. HOUSING REVENUE ACCOUNT OUTTURN

- 5.1. The Housing Revenue account has generated a £9.980m surplus to increase its general balances from £31.606m to £41.586m – this is £2.640m above the budgeted target for the year and thus represents the net surplus against budget.
- 5.2. The overall net surplus consists of a £13.415m over achievement of income in the year (£10.251m of which arises from the review of accounting practice that has seen income from lessees for major works recognised earlier than previous practice of which arises from the review of debtors that has seen income from lessees for major works recognised earlier than previous practice), offset by additional expenditure on repairs and maintenance (£4.783m), housing management costs (£1.692m) and other costs of £0.686m. Together these represent a £6.254m net surplus against the budgeted contribution to reserves of £7.340m.
- 5.3. Capital financing costs and transfers from earmarked reserves of £3.614m taken together with the £6.254m surplus outlined in the previous paragraph produce the net £2.640m additional contribution to reserves over that contained in the approved budget.
- 5.4. The approved gross capital budget of £64.907m was underspent by £7.348m with an outturn of £57.559m. The most significant in-year variances to budget on specific schemes include
- (£3.428m) Delay in acquisition of family sized homes to meet housing need
 - (£3.081m) Lift works to HRA stock – contractual delay due to logistics / eqpt.
 - (£1.385m) External Works & Decorations delay due to Leaseholder consultation
 - £1.970m Kitchen & Bathroom programme brought forward from 2017/18
 - (£0.942m) Electrical Works delayed for further leaseholder consultation
 - (£0.552m) Lisson Arches scheme delayed for further design work / ground survey
 - £0.512m Lisson Arches Bridges – additional costs found following feasibility

6. CORE ACCOUNTING STATEMENTS

Balance Sheet

- 6.1. The accounts use International Financial Reporting Standards (IFRS) to produce the Core Statements. This in turn is adjusted by statutory regulations relating specifically to local government accounts.
- 6.2. The Balance Sheet at Table 1 shows that the Council's net asset position reduced by £15.345m from £1.898bn in 2015/16 to £1.883bn in 2016/17.

Table 1 – Balance Sheet

31 March 2016		31 March 2017	Movement
£'000		£'000	£'000
ASSETS			
<u>Non-current</u>			
1,952,377	Property, plant and equipment	2,070,430	118,054
42,746	Heritage assets	42,746	-
405,270	Investment property	454,840	49,570
1,831	Intangible assets	1,077	(753)
45,916	Long-term investments	41,284	(4,633)
12,394	Long-term debtors	15,229	2,835
2,460,533	Total long term assets	2,625,606	165,073
<u>Current</u>			
514,833	Short-term investments	742,980	228,146
235	Inventories	179	(56)
137,666	Short-term debtors	73,369	(64,297)
117,580	Cash and other cash equivalents	170,302	52,722
2,250	Assets held for sale	2,250	-
772,565	Current assets	989,080	216,515
LIABILITIES			
2,109	Short-term borrowing	2,069	(40)
259,931	Short-term creditors	471,584	211,652
901	Short-term provisions	2,234	1,333
6,151	Revenue receipts in advance	8,341	2,190
269,092	Current Liabilities	484,227	215,135
202	Long-term creditors	204	2
153,035	Provisions	119,270	(33,764)
251,465	Long-term borrowing	251,270	(195)
605,540	Other long-term liabilities	786,898	181,358
55,388	Capital receipts in advance	89,789	34,401
1,065,629	Long-term liabilities	1,247,431	181,801
1,898,378	Net assets	1,883,029	(15,349)
652,657	Total Usable Reserves	575,527	(77,130)
1,245,717	Total Unusable Reserves	1,307,502	61,785
1,898,374	Total Reserves	1,883,029	(15,345)

6.3. The £15.345m reduction in net assets is mainly due to the following factors:

- Reduction of £58m in short term debtors for business rates safety net in 2016/17 as the Council moved to a levy position.
- Increase of £280m in cash holdings and short term investments
- Increase of £211m in short-term creditors, mainly to the GLA and DCLG for increased business rates income for 2016/17
- Capital expenditure (net of depreciation) of £118m towards the Council's operational and investment property portfolio

Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS)

6.4. In addition to the normal budget monitoring report that is reported monthly local government accounting requires the production of a comprehensive income and expenditure statement and a movement in reserves statement. The former is derived using international accounting standards and the movement in reserves statement is designed to adjust for technical transactions such as depreciation. These can be seen on pages 27 and 30 of the accounts

6.5. A reconciliation of the CIES with the budget monitoring is shown below:

Table 2 – summary reconciliation from CIES to Outturn

	General Fund (£m)	Housing Revenue Account (£m)	Total (£m)
Surplus of Provision of Services (as per CIES)	31.908	12.540	44.448
Technical accounting adjustments (as per MiRS)	(128.578)	(3.392)	(131.970)
Use of earmarked reserves	103.872	0.831	104.703
Net surplus against budget	7.201	9.980	17.181

6.6. The £128.578m general fund technical accounting adjustments in the above table consist primarily of the following areas:

- £131m adjustment on Business Rates to account for timing differences
- (£58m) neutralisation of depreciation and revaluation movements on the Council's operational and investment properties
- £82m of capital grants transferred to the Capital Grants Reserves prior to their future use when conditions or restrictions are met. This movement is to ensure capital and revenue income streams are kept separate as per statute
- (£24m) adjustment to the Pension Reserve which neutralises the current service costs and ensures that actuarial estimates are not charged to Council Tax

6.7. £103.872m of earmarked reserves were used in finalising a General Fund outturn of £7.201m surplus. This largely comprised:

- £117m drawdown of business rates safety net equalisation reserve as the Council moved to a levy position. The majority of this reserve is then redistributed to DCLG and GLA in line with Business Rates regulations.
- (£10m) creation of a pension deficit reduction reserve to reduce the Council's long-term pension liability.
- (£5.5m) creation of a Revenue Support Grant damping reserve to mitigate any future reductions in central government funding.

Cash Flow Statement

6.8. There was a £52.722m increase in the Council's cash and cash equivalents (that is, investments that mature in no more than three days), rising from £117.580m in 2015/16 to £170.302m to 2016/17. A summary cash flow can be found at Table 3.

6.9. There was a net outflow of £224m as the Council used its cash reserves to make short-term investments. This was offset by £17m capital receipts and £82m capital grants for use by the Council for supporting its City for All capital programme.

Table 3 – summary Cash Flow Statement

2015/16		2016/17
£'000		£'000
56,761	Net surplus/(deficit) on the provision of services	44,448
132,657	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	415,165
(167,026)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	(99,259)
22,392	Net Cash Flows from Operating Activities	360,354
(133,213)	Net Cash Flows from Investing Activities	(301,547)
(24,542)	Net Cash Flows from Financing Activities	(6,085)
(135,363)	Net increase/(decrease) in cash and cash equivalents	52,722
252,942	Cash and cash equivalents at the beginning of the reporting period	117,580
117,579	Cash and cash equivalents at the end of the reporting period	170,302

7. PENSIONS

- 7.1. The net assets of the Council's Pension Fund increased by £191.382m over the course of the year – rising from £1.066bn to £1.258bn. The table below summarises the major elements that comprise this net change are summarised in the table below:

	Change in Net Assets (£m's)
Member Contributions	38.715
Benefits Paid & Transfers Out	(51.633)
Management Expenses	(5.052)
Investment Returns	8.799
Change in Investment Values	200.553
	191.382

- 7.2. An analysis of the £1.258bn net assets shows they are comprised as follows:

	Net Assets (£m's)
Fixed Interest Securities	171.389
Pooled Investment Vehicles	1,077.837
Futures & Forward Foreign Exchange	0.339
Income Due	3.144
Cash Deposits	1.35
Investment Liabilities	-0.256
Amounts Due for Purchased Investments	(1.884)
Other Current Assets	7.010
Other Current Liabilities	(1.204)
	1,257.725

8. OBJECTIONS

- 8.1. All objections relating to prior years have now been cleared. There were no objections to the 2015/16 accounts.
- 8.2. The public inspection period for the accounts is now set nationally and will take place between 5th June and 14th July 2017 as per the Accounts and Audit Regulations 2015. The accounts will be signed off on 17th July subject to the inspection period.

9. CLOSURE OF ACCOUNTS PROCESS AND FINANCE TRANSFORMATION

- 9.1. The earlier closure of the accounts in 2016/17 continues to derive from the Council's commitment to continual improvement in its financial management. Accelerated closure has given the Council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts process and make them more transparent for the public.

9.2. The statutory deadline for publishing the accounts in 2017/18 has reduced from 30th June to 31st May meaning that the Council has anticipated and resolved many of the issues that may arise at other authorities in the reduction in timeframe.

9.3. Further improvements that have taken place in 2016/17 are:

- Lessons learned from the 2015/16 closure were identified and the frequency of “hard closure” during the year was reduced from monthly to quarterly. This allowed more time in the intervening period to resolve any identified issues during the year.
- Further developments in Agresso processes has simplified and reduced the timeframe for producing the Core Statements from the Trial Balance. The technical adjustments involved are quite complex for Local Government and automating this process has allowed more time to be spent reviewing and understanding the underlying data that underpin the statements.
- Further improvements in the Quality Assurance process included the establishment of an Accruals Panel in the final month before year-end to provide additional level of scrutiny, not just for the accounts, but primarily to strengthen budgetary control.
- External audit planning throughout the year gave opportunity to submit some notes to the accounts for early sign-off. Additionally, improved audit planning allowed schools testing to take place late February/early March and reduced the resources required for the year-end audit.
- De-cluttering reduced the size of the accounts by a further 37 pages or 16%, by removal of duplication across the accounts. This work will continue into and beyond 2017/18 to make the accounts as accessible as possible to the public.

9.4. Early closing has allowed the Council to embark on an ambitious programme of taking a lead role in the national development of Local Government accounting regulations. The main aim of this is to collaborate with the Local Government accounting body (CIPFA), the DCLG and external auditors to simplify technical accounting standards to and make the accounts more meaningful to the public. This work will be on-going throughout the year and will significantly improve transparency of the financial accounts.

10. EXTERNAL AUDIT

10.1. The Accounts and Audit Regulations 2015 require all local authorities to standardise at least a part of the thirty day period during which their accounts are open for public inspection. For the financial year ended 31st March 2017 that period is between the 3rd and 14th July 2017. Therefore until after 14th July the Council’s external auditors are unable to formally certify the annual accounts.

10.2. A separate report by the Council’s external auditors, Grant Thornton, is however on this committee’s agenda whereby they will provide an update as to their interim findings in relation to the accounts and outturn position being presented in this report.

11. RECOMMENDATIONS

- 11.1. That the Audit and Performance Committee note the 2016/17 Draft Annual Accounts which will be re-submitted to the 17th July 2017 meeting after which the statutory public inspection period will have lapsed;
- 11.2. That the proposed £10.000m contribution towards the Pension Fund deficit recovery be noted.

BACKGROUND PAPERS

Westminster City Council - Statement of Accounts 2016/17 (Including Pension Fund)

(See Appendix 1), the following link: https://www.westminster.gov.uk/s/redirect?collection=wcc-web-website&url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&index_url=https%3A%2F%2Fwww.westminster.gov.uk%2F2016-2017-annual-accounts&auth=jwvl9t85MqnJ3mQFgllRew&profile=_default&rank=5&query=annual+accounts

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City of Westminster Committee Report

Meeting:	Audit and Performance Committee
Date:	9 th May 2017
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 reports from Grant Thornton summarise the key findings arising from their audit work in relation to the Council's 2016/17 financial statements and those of the Local Government Pension Scheme it administers.
- 1.2 For 2017/18 the Council is planning to accelerate its close down process even further which it is using as a vehicle to further enhance and streamline its processes.

2. Recommendations

- 2.1 That the Committee consider the Audit Finding reports 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 2016/17 financial statements.

4. Background, including Policy Context

- 4.1 The Audit Finding Reports from Grant Thornton are 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 17th July 2017. 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. Westminster City Council Draft Audit Findings report 2016-17 vTCWG
2. CoW PF Audit Findings report 2016-17 vTCWG

The Audit Findings for Westminster City Council

Year ended 31 March 2017

9 May 2017

Page 17

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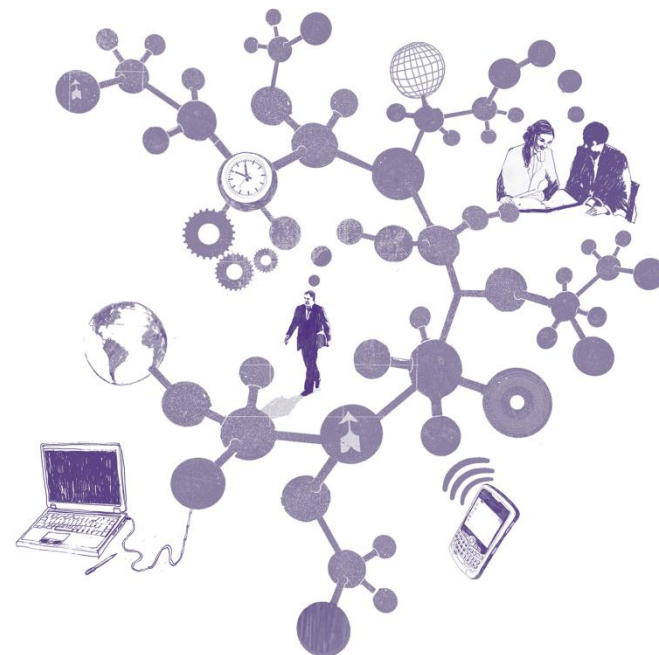
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Westminster City Council
Westminster City Hall
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9 May 2017

Dear Sirs

Audit Findings for Westminster City Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of Westminster City Council, the Audit and Performance Committee), to oversee the financial reporting process, 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 auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 and giving a value for money conclusion. 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

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	23
4. Other statutory powers and duties	28
5. Fees, non-audit services and independence	30
6. Communication of audit matters	33

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Page 20

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 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 to consider other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report, whether it is consistent with the financial statements, apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Council acquired in the course of performing our audit; or otherwise misleading.

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. We are required to provide a conclusion whether in all significant respects, the Council has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the year.

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 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 not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 9 February 2017. However, we have refocused the significant risk for the Managed Services Partnership to focus on the control environment for posting journals and completeness of the General Ledger (GL) through the operation of journals across the tri-borough.

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

Due to be completed in May 2017

- small number of substantive testing samples outstanding: 1 journal; HRA judgement paper for contributions to expenditure and evidence for sample; 1 revenue grant and 1 capital receipt in advance; and 3 HB payments
- cash reconciliation
- awaiting for direct confirmation of investments and loans held at year end from counterparties.

Due to be completed for 14 July:

- review of subsidiary audited accounts
- review of final valuation report for PPE (due end May)
- review of the final version of the financial statements
- obtaining and reviewing the management letter of representation
- review of revised versions of the Annual Governance Statement, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on 6 April 2017 which is nearly three months ahead of the statutory deadline for Local Authorities. We received majority of the working papers by the end of the first day onsite.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position. The draft and audited financial statements for the year ended 31 March 2017 recorded net expenditure £269,164k. The Council's gross expenditure is £1bn and it is a large and complex organisation with a wide range of services being delivered.

We identified an amendment to the gross expenditure and income and have also recommended a small number of adjustments to improve the presentation of the financial statements. Further details are set out in section two of this report.

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

- the Council prepared a very good quality set of de-cluttered draft accounts within 4 working days of year end which is the fastest public sector in the country
- officers were responsive to audit requests with the majority of evidence being provided within one working day

- the supporting working papers were of a high quality although key working papers, including the GL download from the managed services provider, were not available on the agreed date so samples could not be picked in advance of the onsite visit commencing
- the Council has ambitious plans to bring forward to audit timetable for 2017/18 and working papers for all balances and GL downloads need to be provided on day one of the audit in the agreed format.

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 if the AGS and Narrative Report is misleading or inconsistent with the information of which we are aware from our audit.

Based on our review of the Council's Narrative Report and AGS we are satisfied that they are consistent with the audited financial statements. We are also satisfied that the AGS meets the requirements set out in the CIPFA/SOLACE guidance and that the disclosures included in the Narrative Report are in line with the requirements of the CIPFA Code of Practice.

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

Our work has identified the following control weaknesses which we wish to highlight for your attention:

- our payables testing identified one creditor (out of 18) that should not have been included in the 2016/17 accounts as the directorate were aware the amount related to the 2017/18 year
- our testing of post-year end payments for unrecorded liabilities identified three payments (out of 20) that should have been included as accruals in 2016/17 as they were larger than the £10,000 limit and one payment included in the financial statements but related to 2017/18.

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

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

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

Grant certification

In addition to our responsibilities under the Code, we are required to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. We received the draft HB subsidy claim on 29 April and work will be finalised by the 30 November 2017 deadline. We will report the outcome of this certification work through a separate report to the Audit and Performance Committee which is due in February 2018.

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 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 2017

Section 2: Audit findings

Page 24

- 01. Executive summary
- 02. Audit findings**
- 03. Value for Money
- 04. Other statutory powers and duties
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £18,925k (being 1.85% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and we revised our overall materiality to £20,901k (being 1.85% of gross revenue expenditure) following receipt of the draft financial statements.

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 £1,046k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation. Clearly trivial is an auditing concept related to the audit opinion on financial statements. We recognise the importance that all publically funded expenditure should be subject to appropriate management controls.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 26</p>	<p>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:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including Westminster City Council, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work to date has not identified any issues in respect of revenue recognition.</p> <p>The Council changed their revenue recognition policy for the Housing Revenue Account (HRA) contribution to expenditure in 2016/17. This has resulted in approximately £13.1m increase in revenue to the HRA this year. The Council is currently reviewing the impact on the 2015/16 income for the change in accounting policy and we will verbally update the committee at the meeting whether there is any impact on the prior year income figures. Currently this is not a material change in accounting policy so a prior year restatement is not required.</p> <p>Our sample testing of the completion statements in is progress.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have performed the following:</p> <ul style="list-style-type: none"> • review of entity controls • review of journal entry process and selection of unusual journal entries for testing back to supporting documentation • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. 	<p>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 that a weakness in the system arising in the prior year has remained for 10 journals in 2016/17:</p> <ul style="list-style-type: none"> • cross entity journals can be raised across the tri-borough councils. <p>Journals testing is still in progress and a verbal update will be given at the committee meeting.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
<p>Managed Services Partnership (MSP) The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements. The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Significant improvements have been made since the previous year but there remains a risk to the audit opinion.</p>	<p>We have performed the following work:</p> <ul style="list-style-type: none"> • updated our understanding of the Council's relationship with the managed service provider during the 2016/17 year • reviewed the control environment around the posting of journals on the ledger and how these operate across the tri-borough • reviewed the service provision arrangements to ensure that the Council had sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2017 	<p>The Council has continued to proactively manage the system and service delivery throughout the 2016/17 financial year. Officers of the Council have continued to visit the BT offices to ensure that the improved system controls are effectively operating throughout the year. 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.</p> <p>Improvements have been made to the journal control environment although the Council are still unable to obtain a report of who posted and authorised every journal from BT. We also identified that the system still allowed ten cross-entity journals to be posted during the financial year. This is an improvement from the number posted in the prior year. The Council has investigated options for implementing the recommendation made last year: 'cross entity journals should be prevented from being posted in the ledger'. It is not possible to stop this function within the tri-borough GL so a compensating control has been put in place. The Council receives a daily report showing any incidences of cross-entity journals and confirmation that these balance to zero across the tri-borough GL.</p> <p>The accounts closedown and production was a smoother process in 2016/17 as the finance team could rely on the Agresso system reports and manual intervention and checking was not required.</p> <p>We have received sufficient assurance that the managed service partnership is being actively monitored by the Council and appropriate action is taken by management to ensure the accounts were produced in line with the 2016/17 timetable.</p>
<p>Appeals Provision for National Non-Domestic Rates (Business Rates) Westminster City Council's provision for business rates appeals 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.</p>	<p>We have performed the following work:</p> <ul style="list-style-type: none"> • We have reviewed 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 	<p>We have received managements judgements and assumptions made in calculating the provision.</p> <p>The provision has reduced significantly in 2016/17 and we are satisfied with management's judgements for the movement in the year after challenging the assumptions made and confirm it is materially fairly stated.</p>

Page 27

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
<p>Employee remuneration</p>	<p>Payroll expenditure represents a significant percentage of the Council's gross expenditure.</p> <p>We identified the completeness of payroll expenditure in the financial statements as a risk requiring particular audit attention:</p> <p>Employee remuneration accruals understated (Remuneration expenses not correct)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<p>Operating expenses</p>	<p>Non-pay expenditure represents a significant percentage of the Council's gross expenditure. Management uses judgement to estimate accruals of un-invoiced non-pay costs.</p> <p>We identified the completeness of non-pay expenditure in the financial statements as a risk requiring particular audit attention:</p> <ul style="list-style-type: none"> • Creditors understated or not recorded in the correct period (Operating expenses understated) 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • 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. 	<p>Our audit work identified a control weakness in the process for recording amounts owed at year end:</p> <ul style="list-style-type: none"> • our payables testing identified one creditor (out of 18) that should not have been included in the 2016/17 accounts as the directorate were aware the amount related to the 2017/18 year • our testing of post-year end payments for unrecorded liabilities identified three payments (out of 20) that should have been included as accruals in 2016/17 as they were larger than the £10,000 limit and one payment that was accrued for but should not have been. <p>We have concluded that there could not be a material misstatement in the accounts for these errors.</p>

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

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Valuation of property, plant and equipment</p>	<p>The Council revalues its assets on a rolling basis over a five year period. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from the current value. This represents a significant estimate by management in the financial statements.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • reviewed management's processes and assumptions for the calculation of the estimate. • reviewed the competence, expertise and objectivity of any management experts used. • reviewed the instructions issued to valuation experts and the scope of their work • discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions. • reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding. • performed testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Evaluated 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. 	<p>Our audit work to date has not identified any significant issues in respect of the PPE valuation risk.</p> <p>Our testing is in progress for:</p> <ul style="list-style-type: none"> • HRA valuation • review of the final valuation report due at the end of May 2017.

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Changes to the presentation of local authority financial statements</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 30</p>	<p>CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice.</p> <p>The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS) tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice. 	<p>Our review of the restated Comprehensive Income and Expenditure analysis and new EFA note did not identify any issues.</p> <p>We did carry out early work on the restated 2015/16 figures but these changed in the draft version of the 2016/17 accounts so we re-performed this review. The reason for the change in analysis is due to additional review at the accounts preparation stage.</p> <p>We requested that further disclosure was included in the accounts in respect of the reasons for the change in presentation for the CIES restatement.</p>

Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there is not a going concern issue for 2016/17. The Council has a healthy level of reserves and income generation plans for the future.



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
<p>Revenue recognition</p>	<ul style="list-style-type: none"> 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: <ul style="list-style-type: none"> (i) The Council will comply with the conditions attached to the payments; and (ii) The grants or contributions will be received. 	<ul style="list-style-type: none"> The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2016/17. 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. However, our testing of the HRA contribution to expenditure figure identified that the Council had changed their revenue recognition policy for capital works partially completed in the year but this was not included as a change in policy in the draft accounts. We have reviewed the change in policy and are satisfied that this is a reasonable judgment for recognising income in the financial year. This has resulted in approximately £13.1m increase in revenue to the HRA this year. The Council is currently reviewing the impact on the 2015/16 income for the change in accounting policy and we will verbally update the committee at the meeting whether there is any impact on the prior year income figures. Currently this is not a material change in accounting policy so a prior year restatement is not required. 	<p style="text-align: center;">● Green</p>
<p>Judgements and estimates</p>	<p>Critical judgements include:</p> <ul style="list-style-type: none"> going concern review recognition of school assets whether group accounts should be prepared tri-borough working arrangements <p>Key estimates include:</p> <ul style="list-style-type: none"> PPE – useful lives and valuation pensions liability business rates provision fair value estimations 	<ul style="list-style-type: none"> Critical judgements and estimation uncertainty are disclosed in notes 2 and 3 respectively of the financial statements We have requested that management enhances the disclosure within note 3 to set out the judgements made in relation to group accounts considerations as the assets and liabilities of some companies has increased in the year. 	<p style="text-align: center;">● Green</p>

Assessment

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<p>Going concern</p>	<p>The City Treasurer as s151 officer has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. Members concur with this view. For this reason, the Council continue to adopt the going concern basis in preparing the financial statements.</p>	<p>We have reviewed the Council's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.</p>	<p style="text-align: center;">  Green </p>
<p>Other accounting policies</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.</p>	<p>We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. 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.</p>	<p style="text-align: center;">  Green </p>

Page 32

Assessment

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

● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A letter of representation has been requested from the Council for July 2017, which will be included in the Audit and Performance Committee papers at the 14 July meeting. In particular, representations have been requested from management in respect of the significant assumptions used in making accounting estimates for: <ul style="list-style-type: none"> Business rates provision reduction 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	<ul style="list-style-type: none"> We requested from management permission to send (a) confirmation requests to investment and borrowing institutions. This permission was granted and the requests were sent. We are currently waiting for a number of these requests to be returned with positive confirmation. We anticipate receiving all confirmations before the audit opinion will be signed in July 2017. We undertook alternative procedures, including reviewing all year end confirmations sent to the Council to verify the investments and borrowings in case we do not receive all confirmations.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Page 33

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<p>We have not identified any issues we would be required to report by exception in the following areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • The information in the Narrative Report is materially inconsistent with the information in the audited financial statements or our knowledge of the Council acquired in the course of performing our audit, or otherwise misleading. <p>We have not identified any issues we would be required to report by exception. We have not requested any enhancements to the Narrative Statement. We have identified some minor changes to the Annual Governance Statement.</p>
	8.	Specified procedures for Whole of Government Accounts


Page 34

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 as set out on pages 12-14 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 Page 35	 Amber	<ul style="list-style-type: none"> Accruals and creditors – our sample testing of 20 post-year payments and 18 year end creditors identified items did not follow the guidance for including liabilities in the 2016/17 financial statements: <ul style="list-style-type: none"> three post-year end payments tested should have been accrued for in the 2016/17 accounts as they were over the £10,000 limit. one creditor and one post-year payment were included in the accounts but related to 2017/18 so should not have been. <p>As there are under and over-statements identified in the testing and these are all of a low value we are satisfied that there is not a material misstatement in the financial statements.</p>	<ul style="list-style-type: none"> All budget managers should follow the accruals guidance for preparing the year end position

Assessment

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Ten cross-entity journals were posted across the tri-borough general ledger in 2016/17. This is an improvement from the number posted in the prior year. The Council has investigated options for implementing the recommendation made last year: 'cross entity journals should be prevented from being posted in the ledger'. It is not possible to stop this function within the tri-borough GL so a compensating control has been put in place. The Council receives a daily report showing any incidences of cross-entity journals and confirmation that these balance to zero across the tri-borough GL. This is a satisfactory compensating control.
2.	✓	<ul style="list-style-type: none"> A small number of journals were not processed through the ledger before the draft accounts were provided to audit. The Council has posted the journals and provided a revised trial balance for audit. 	<ul style="list-style-type: none"> The Council has improved its closedown arrangements and all journals were posted to the GL before the draft accounts were submitted for audit.

Page 36

Assessment

- ✓ Action completed
- X Not yet addressed

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 net expenditure for the year.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £000
1 Comprehensive Income and Expenditure			
Internal recharges were included gross in the cost of services expenditure and income totals. The Code requires these to be accounted for as net.		0	0
Dr Gross Income	98,861		
Cr Gross Expenditure	98,861		
Overall impact	£ Nil	£ Nil	£ Nil

Unadjusted misstatements

Our audit testing has not identified any adjustments that management has declined to amend within the final set of financial statements.

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 Disclosure	n/a	Officer's Remuneration (note 9)	Two amendments identified to the disclosure notes: <ul style="list-style-type: none"> Over £50k table: 125,000-£129,999 from 3 to 4 and £130,000-£134,999 from 1 to 0 Senior employees table: the pension for one of the Executive Directors should be £34,007 not £31,338.
2 Disclosure	221	Audit Fee (note 10)	The fee for non-audit work totalling £13k was omitted from the note.
3 Disclosure	1,711,245	Unusable Reserves – Capital Adjustment Account (CAA) (note 26)	A long term debtor written off in the year was incorrectly classified within the CAA note. Disclosure amendment from 'Capital expenditure charged against the GF and HRA balances' to 'Charges for depreciation and impairment of non-current assets' of £1,938k.
4 Disclosure	5,964	Unusable Reserves – Collection Fund Adjustment Account (note 26)	An amendment of £12k is required for council tax and £(47,555)k for NNDR. Note that these are disclosure only as the ledger & total unusable reserves figures show the correct amount.
5 Disclosure	n/a	Various	A small number of casting and consistency amendments have been made to the draft accounts. These are all of clearly trivial nature so have not been reported individually.

Page 38

Section 3: Value for Money

Page 39

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money**
- 04. Other statutory powers and duties
- 05. Fees, non-audit services and independence
- 06. Communication of audit matters

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 2016. AGN 03 identifies one single criterion for auditors to evaluate:

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

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 January and updated in April 2017 and identified one significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated 9 February 2017.

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 risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address	Findings and conclusions
<p>Significant capital projects The capital programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised in 2015/16 that there was a weakness in arrangements and introduced a new business case process for all major schemes.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Case 41</p>	<p>We reviewed the project management and risk assurance framework established by the Council in respect of the more significant projects, to establish how the Council is identifying, managing and monitoring these risks. We also reviewed any business cases that are near completion or approved by members by the end of the financial year.</p>	<p>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 two years 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 2015/16 and this has been used for all new major schemes this year.</p> <p>The business case approach has started to become embedded across the team and there is a wider understanding of the people developing the cases for the level of detail required across the five key areas of the business case: strategic; economic; commercial; financial; and management. Training has been provided to all people involved in the process. These key areas ensure that all key information is provided to the Executive Director and Cabinet Member for making the decision about investment and has seen an increase in the challenge provided by members before a decision about the scheme is made. This has given greater transparency to the major capital schemes.</p> <p>The Council's Capital Review Group (CRG) 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.</p> <p>During 2015/16, one business case was completed for the City Hall refurbishment. This will be finalised in May 2017 and will be formally approved by Cabinet.</p> <p>There are three new business cases for 2016/17 that have gone through the review process with the CRG. These are: Beachcroft; West End Partnership (WEP) Oxford Street; and WEP Strand. In addition, there are three more in draft stage. This shows that the business case process is being utilised for the major schemes in the Council's capital programme. This has given greater transparency to the major capital schemes.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</p>

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 business case process (see findings on page 25)

In addition, we reviewed the financial outturn position for 2016/17 and financial planning for 2017/18.

Financial Outturn 2016/17

The General Fund revenue position is a £17.2m gross underspend against approved budget. The Council's strong financial monitoring during the year anticipated an underspend position which is a result of increased income for parking and the robust management of debtors to recover outstanding debt. Council have approved £10m of the overall General Fund net underspend as a contribution towards the Pension Fund deficit recovery. The remaining £7.2m will be transferred to the General Fund Reserves, increasing the closing balance to £48.78m. This will continue to support the Council's financial resilience over the medium term to ensure they can meet the challenges it faces in setting the budget from 2018/19 and beyond.

The General Fund Capital Programme shows a net underspend against 2016/17 approved budget of £23.5m. The Council are confident that this underspend will not impact on the Council's long term cost of funding the capital programme. The key area for the underspend is in Finance, Property and Corporate Services as the plan included the flexible use of capital receipts, in line with the new freedoms, for making the contribution towards the pension fund deficit which has now been set aside from revenue.

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

Financial planning for 2017/18

The Council approved the revenue and capital budgets in March 2017. The process for preparing the budget is robust and includes challenge from members to all the Executive Directors. The Council identified net savings totalling £35.4m to deliver a balanced budget for 2017/18 and options to deliver the budget savings were approved by Council. It has started budget planning early for 2018/19 and whilst setting a balanced budget will be challenging, the Council expects to be able to deliver a balanced budget.

We do not have any concerns arising from the 2017/18 financial planning process 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. No recommendations for improvement have been identified.

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

Page 44

- 01. Executive summary
- 02. Audit findings
- 03. Value for Money
- 04. Other statutory powers and duties**
- 05. Fees, non audit services and independence
- 06. Communication of audit matters

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	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty.

Page 45

As at 2 May 2017, we have not received any formal objections to the 2016/17 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

Page 46

01.	Executive summary
02.	Audit findings
03.	Value for Money
04.	Other statutory powers and duties
05.	Fees, non audit services and independence
06.	Communication of audit matters

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

Fees

	Proposed fee £	Final fee £
Council audit	185,719	185,719
Grant certification	22,410	22,410
Total audit fees (excluding VAT)	208,129	208,129

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

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'.

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 your attention. We have complied with the Auditing Practices Board's Ethical Standards and confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table below summarises all non-audit services which were identified.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers Pension Grant	3,500
Non-audit related services:	
• CFOinsights tool	9,500

Independence and non-audit services

We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place

	Service provided to	Fees	Threat?
CFO insights	Westminster City Council	9,500	N

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

Section 6: Communication of audit matters

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

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.

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

Respective responsibilities

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.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<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, or emphasis of matter		✓
Unadjusted misstatements and material disclosure omissions		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

Appendices

- A. Action Plan
- B. Audit Opinion

Page 51

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	All budget managers should follow the accruals guidance for preparing the year end position.		Guidance and controls in respect of accruals were reviewed and audited in 2016/17 and found to be robust. Over and above this the finance team also independently reviewed all accruals over £100k and a random sample of 5% of all other accruals below this value as part of the year end process.	A further review of guidance, controls and compliance arrangements will take place in the early part of 2017/18.

Page 52

Controls

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

B: Audit opinion

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

PROPOSED OPINION WILL BE ADDED FOR JULY COMMITTEE

Page 53

Page 54



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The Audit Findings for City of Westminster Pension Fund

Year ended 31 March 2017

9 May 2017

Page 57

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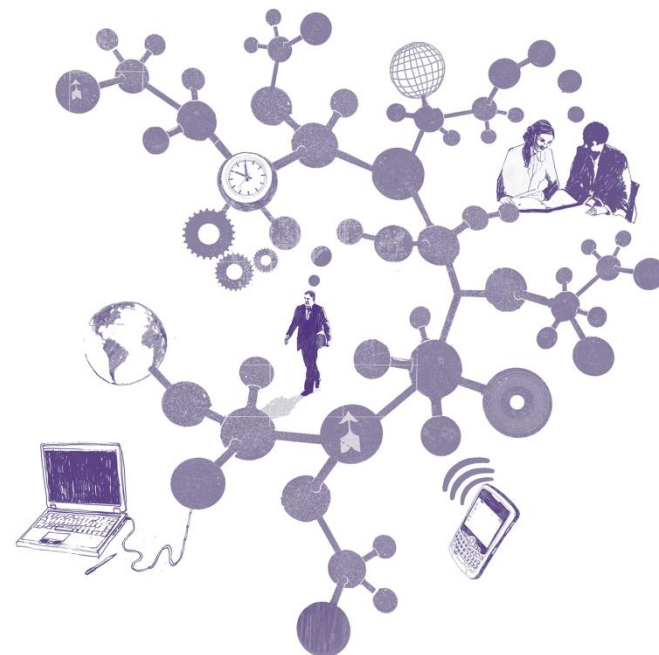
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City of Westminster Pension Fund
Westminster City Hall
64 Victoria Street
LONDON
SW1E 6QP

9 May 2017

Dear Members of the Audit and Performance Committee

Audit Findings for City of Westminster Council for the year ending 31 March 2017

This Audit Findings report highlights the key findings arising from the audit that are significant to the responsibility of those charged with governance (in the case of City of Westminster Council, the Audit and Performance Committee), to oversee the financial reporting process, 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 officers.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland) ('ISA (UK&I)'), 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 and giving a value for money conclusion. 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

Elizabeth Jackson
Engagement lead

Chartered Accountants

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Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Fees, non-audit services and independence	20
4. Communication of audit matters	22

Appendices

- A Action plan
- B Audit opinion

Page 59

Section 1: Executive summary

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Page 60

Purpose of this report

This report highlights the key issues affecting the results of City of Westminster Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2017. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of ISA (UK&I) 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 Fund's financial statements give a true and fair view of the financial position of the fund 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.

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 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.

The pension fund is covered by these provisions as a result of its relationship with the administering authority, City of Westminster Council. However, in practice the use of these powers in relation to a pension fund is rare and we have not identified any reporting issues in 2016/17.

Introduction

In the conduct of our audit we have amended our audit approach which we communicated to you in our Audit Plan dated 9 February 2017. Upon receipt of the draft financial statements we have identified the following changes to our planned approach:

- Level 3 investments have been identified by officers as a result of updated guidance of the risk categorisation of one of the investments previously reported as level 2. We have reported this as a new significant risk in this report
- the audit plan identified investment income as a risk. This is immaterial this year so is being audited as a general balance in the financial statements and not a specific risk
- we have refocused the significant risk for the Managed Services Partnership to focus on the control environment for posting journals and completeness of the General Ledger (GL) through the operation of journals across the tri-borough.

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

- finalising our testing on member data, benefits payable and IAS19 disclosures confirmation from the auditor expert (due end of May)
- review of the final version of the financial statements and annual report
- obtaining and reviewing the management letter of representation, and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements for the Council and Pension Fund on 6 April 2017 which makes them the first draft set of 2016/17 Local Authority financial statements. Officers requested that the audit commence on 18 April to enable them to finalise the accompanying working papers and to update the investment balances for the finalised reports from the Custodian and Fund Managers.

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 the Pension Fund Annual Report.

We understand that the annual report will be ready for audit in advance of the formal signing date in July 2016 so anticipate issuing the consistency statement at the same time as the audit opinion.

Key audit and financial reporting issues

Financial statements opinion

We have not identified any adjustments affecting the Fund'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 2017 recorded net assets available for benefits during the year of £1,267m.

We have recommended a small number of adjustments to improve the presentation of the financial statements.

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

- a high quality set of draft accounts were submitted for audit
- the quality of the working papers and documents supporting the balances within the financial statements were of a good standard
- we received a high level of co-operation and support during the course of our audit although the speed of reply from the pensions administration body could be improved for the closedown ambitions of the Council.

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).

Controls

Roles and responsibilities

The Fund'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 Fund.

Findings

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

- The interface between the managed services system and Surrey pensions administration system did not go live as expected during 2016/17. This means that manual interfaces were performed which are labour intensive. There remains a backlog in processing changes to members data in the pensions administration system due to the service provider not providing correct and timely pension data to the administrator.

Further details are provided within section two of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit have been discussed with the City Treasurer.

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 2017

Section 2: Audit findings

01.	Executive summary
02.	Audit findings
03.	Fees, non audit services and independence
04.	Communication of audit matters

Page 64

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of ISA (UK&I) 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 £9,891k (being 0.9% of net assets). We have considered whether this level remained appropriate during the course of the audit and due to an increase in the Fund's net asset statement, we revised our overall materiality to £11,409k (being 0.9% of net assets).

We also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts 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 £570k. This remains the same as reported in our audit plan. Clearly trivial is an auditing concept related to the audit opinion on financial statements. We recognise the importance that all publically funded expenditure should be subject to appropriate management controls.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate.

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK&I) 320)

Audit findings against significant risks

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
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
<p>Management over-ride of controls</p> <ul style="list-style-type: none"> • Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities. 	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal controls and testing of journal entries has not identified any significant issues. For the Council audit, the weakness identified in the prior year that cross-entity journals could be raised across the tr-borough still exists. We did not identify any cross-entity journals for the Pension Fund in 2016/17.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK&I) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK&I) 550)

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
<p>Managed Services Partnership (MSP) The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements. The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Significant improvements have been made since the previous year but there remains a risk to the audit opinion.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • updated our understanding of the Council and Fund's relationship with the managed service provider during the 2016/17 year • reviewed the control environment around the posting of journals on the ledger and how these operate across the tri-borough • reviewed the service provision arrangements to ensure that the Council had sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2017. 	<p>The Council has continued to proactively manage the system and service delivery throughout the 2016/17 financial year. Officers of the Council have continued to visit the BT offices to ensure that the improved system controls are effectively operating throughout the year. 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.</p> <p>Improvements have been made to the journal control environment although the Council are still unable to obtain a report of who posted and authorised every journal from BT. The weakness identified in the prior year in respect of the cross-entity journals has not occurred in 2016/17 for the Pension Fund (although cross-entity journals were found in the Council's journal population).</p> <p>We have identified a weakness in relation to the information flow from the managed services system to the pensions administrator team at Surrey. This has led to a significant backlog in updating the member data during the year. Also, the automated interface function has not yet been implemented and a manual process has been in place throughout the year. We have received sufficient assurance that the managed service partnership is being actively monitored by the Council and appropriate action is taken by management to ensure the accounts were produced in line with the 2016/17 timetable.</p>
<p>NEW RISK IDENTIFIED IN DRAFT 2016/17 FINANCIAL STATEMENTS</p>		
<p>Level 3 Investments Valuation is incorrect Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • verified the investment balances to the fund manager and custodian report • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments, including the management judgement for amending the classification. 	<p>Our audit work to date has not identified any significant issues in relation to the risk identified.</p> <p>We are currently reviewing managements judgement for the reclassification of the investments.</p>

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
Investment purchases and sales Page 68	Investment activity not valid. Investment valuation not correct.	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. we have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices. we have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. 	Our audit work has not identified any significant issues in relation to the risk identified.

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

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence • rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> • we have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding • tested a sample of individual pensions in payment by reference to member files for accuracy and occurrence • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained which confirmed completeness. 	Our audit work is in progress as we are currently waiting for information to evidence two new pension payments as our sample testing of 22 identified: <ul style="list-style-type: none"> • one pensioner with no leaver form • one pension with no final calculation. We will verbally update the committee with the outcome of our testing.

Page 69

Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 70</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. Testing over the annual reconciliation and verifications with individual members. Sample tested changes to member data made during the year to source documentation. 	<p>Our audit work is in progress as we are currently waiting for information to evidence:</p> <ul style="list-style-type: none"> Leavers testing: no information on Altair for one member of the Fund in respect of leaving the Fund in the year Starters testing: no information on Altair relevant to the enrolment date <p>We will verbally update the committee with the outcome of our testing.</p> <p>In addition, the control weakness identified in the prior year, the fund has not circulated pensioners domiciled abroad to confirm that they are still Members, still exists in 2016/17. We have concluded that there could not be a material misstatement as a result of the control weakness but have raised a recommendation in the Internal Control section of this report (page 19).</p>

Going concern

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

We reviewed the management's assessment of the going concern assumption and the disclosures in the financial statements and concluded that there are no issues arising for the Fund in 2016/17.

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 Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy for Contribution and Investment income is set out in Note 3 a-c Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements	● Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: - pension fund liability	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund 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 officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2016/17 financial statements.	● Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Page 71

Assessment

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> 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	<ul style="list-style-type: none"> We have been made aware of one breach during the year which has been reported to the Pensions Regulator. Approximately 300 members of the Local Government Pension Scheme (15% of the eligible workforce) did not receive their LGPS annual benefit statement by 31 August 2016 due to a problem with the absence periods for these staff. In addition, for the statements issued on time there were a number of queries about the quality of the data and a root cause analysis was carried out and new statements issued in early 2017. This issue has been communicated to the committee in reports from management. There is no impact on the 2016/17 financial statements. We have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation will be requested for the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to fund managers, custodian and the bank. This permission was granted and the requests were sent and were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.


Page 72

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 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. Page 73	 Amber	<ul style="list-style-type: none"> The interface between the managed services system and Pensions Administration system did not go live as expected during 2016/17. This means that manual interfaces were performed which are labour intensive. There remains a backlog in processing changes to member data in the pensions administration system due to the service provider not providing correct and timely pension data to the administrator. 	<ul style="list-style-type: none"> The Pensions Improvement Plan needs to be fully implemented

Assessment

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

"The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal control 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. The matters being reported are limited to those deficiencies that the auditor has identified during the audit and that the auditor has concluded are of sufficient importance to merit being reported to those charged with governance." (ISA (UK&I) 265)

Internal controls – review of issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	✓	<ul style="list-style-type: none"> Management Expenses of £2.5m and Investment Income £8.5m incurred/received by Fund Managers and change in market value of £6m has been correctly recorded in the financial statements but not recorded in the Agresso ledger. 	<ul style="list-style-type: none"> The accounts fully reconcile to the GL for 2016/17.
2.	X	<ul style="list-style-type: none"> Pensioners domiciled abroad have not been circularized for over two years to confirm that they are still eligible for their pensions. 	<ul style="list-style-type: none"> Management are currently reviewing the most efficient and cost effective way of implementing the recommendation.
3.	✓	<ul style="list-style-type: none"> The Agresso accounting system allows for journals to be posted so that the debits and credits are not equal within the Westminster Pension Fund ledger. Seven such journals totaling £15k were identified and corrected by the finance team. The journals balanced over the Council/Pension Fund general ledgers as the system allows for journals to be posted across the three councils / pension funds. 	<ul style="list-style-type: none"> There are no cross-entity journals identified in 2016/17 financial statements. The internal control weakness still exists for the Council financial statements but the Pension Fund has not posted any such journals.

Page 74

Assessment

- ✓ Action completed
- X Not yet addressed

Adjusted misstatements

There are no adjustments to the draft accounts 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.

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Presentational and classification misstatements

There were no presentational changes within the financial statements that are above our reporting level.

Section 3: Fees, non-audit services and independence

01	Executive summary
02	Audit findings
03	Fees, non audit services and independence
04.	Communication of audit matters

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee £	Final fee £
Pension Fund audit	21,000	21,000
Total audit fees (excluding VAT)	21,000	21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Independence and ethics

- Ethical Standards and ISA (UK&I) 260 require us to give you timely disclosure of matters relating to our independence. In this context, 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 confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council and Fund.
- We confirm that no non-audit or audited related services have been undertaken for the Fund in 2016/17.

Section 4: Communication of audit matters

Page 78

- 01. Executive summary
- 02. Audit findings
- 03. Fees, non audit services and independence
- 04. Communication of audit matters**

Communication to those charged with governance

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.

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

Respective responsibilities

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.psa.co.uk/appointing-auditors/terms-of-appointment/>)

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

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<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

- A. Action Plan
- B. Audit Opinion

Page 80

A. Action plan

Priority

Rec no.	Recommendation	Priority	Management response	Implementation date and responsibility
1	The Pensions Improvement Plan needs to be fully implemented.		An Improvement plan is in place which will: 1) Ensure that root causes of current issues are understood and resolved; 2) Ensure that the Managed Services to Surrey Interface is fully delivered; 3) Ensure that there are performance metrics on the end to end pensions administration process (including data from all admitted and scheduled body providers) so that issues are identified earlier and resolved at the correct point of the process. 4) Ensure that a reconciliation of data is carried out across all systems.	June 2017 - Tri Borough Director of Pensions and Treasury (TBDTP)/Director of People Services (DPS) May 2017 –TBDTP/DPS Sept 2017 – TBDTP/DPS Aug 2017 – TBDTP
2	Management should determine the most efficient and cost effective way of implementing checks on pensioners domiciled abroad.		A process be implemented by October 2017 that reaches the highest volume of pensioners domiciled abroad.	Oct 2017 - DPS

Page 81

Controls

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

B: Audit opinion

We anticipate we will provide the Fund with an unmodified audit report.

PROPOSED OPINION WILL BE ADDED FOR JULY COMMITTEE

Page 82

Page 83



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Audit & Performance Committee

Date:	9 May 2017
Classification:	General Release / Confidential
Title:	Tri-borough to Bi-Borough Programme Update
Report of:	Charlie Parker, Chief Executive
Cabinet Member Portfolio	Leader of the Council
Wards Involved:	All
Policy Context:	City for All
Report Author and Contact Details:	Anne Pollock x2757 apollock@westminster.gov.uk

1. Executive Summary

- 1.1 Westminster City Council and Kensington and Chelsea have recently served 12 months' notice on the Tri-borough arrangements in respect of Tri-borough Children's Services, Tri-borough Adult Social Care and Tri-borough Public Health Services.
- 1.2 While maintaining current services, the two boroughs now intend to establish successor bi-borough services.
- 1.3 Currently we have had no indication from Hammersmith & Fulham that other shared services will be affected.
- 1.4 This report aims to update the Audit & Performance Committee on the Tri-borough to Bi-Borough Programme Arrangements and Timelines. It should be noted that planning is in its early stages and more detailed update will therefore be submitted to the Westminster Scrutiny Commission for analysis and feedback on 24 May.

2. Key Matters for the Committee's Consideration

- 2.1 To note the arrangements the Council has put in place to ensure the exit from the current Tri-borough arrangements and transition into new bi-borough are as smooth as possible.

3. Background

- 3.1 Westminster City Council and Kensington & Chelsea have served 12 months' notice to Hammersmith & Fulham on the Tri-borough arrangements concerning Tri-borough Children's Services, Tri-borough Adult Social Care and Tri-borough Public Health Services.
- 3.2 The decision has been taken in the face of uncertainty caused by Hammersmith & Fulham preparing over some time, to make alternative in-house plans without any formal engagement with the other two local authority partners about these key services. This is causing anxiety to shared staff and placing potential risks to the provision of these joint services for vulnerable people in each borough.
- 3.3 As a result, Westminster's Cabinet met on Monday 27 March, and formally agreed to give notice to terminate the shared staffing arrangements in respect of the services named above. The Royal Borough of Kensington & Chelsea has also taken the same decision. Both boroughs remain absolutely determined to continue to work together for the benefit of local people.
- 3.4 Tri-borough's legal agreements set out that with any termination of the arrangements all parties are obliged to minimise disruption to delivery of services and to staff during the period of notice, which could be for a period of up to 12 months. To assist with this, Westminster and Kensington & Chelsea have called for a joint project team with Hammersmith & Fulham to oversee the transition.
- 3.5 While maintaining current services, Westminster and Kensington & Chelsea now intend to establish successor bi-borough services in order to give certainty to staff and ensure the long term planning of any new services are pared and executive well in advance of a future "go-live" date for the new bi-borough services.
- 3.6 It remains possible that the two boroughs will retain more capacity than they need for their own purposes in the hope of selling specialist services to H&F (e.g. fostering and adoption, Multi Agency Safeguarding Hubs (MASH)).
- 3.7 Sue Redmond has replaced Liz Bruce as the statutory (tri-borough) Director of Adult Social Services (DASS) on an interim basis. Westminster City Council and RBKC are seeking a permanent successor for the new bi-borough service. Steps are underway to appoint a permanent Executive Director for Children's Services.
- 3.8 To date, we have had no indication from LB Hammersmith & Fulham that other shared services will be affected.

3.9 Programme Arrangements

The Tri-borough Exit Programme aims to deliver the following

- Establish the steps needed to (building on the successes of Tri-borough):
- Safeguard vital frontline services – Children’s, Adult & Public Health
- Provide certainty to staff
- Establish effective bi-borough arrangements for Children’s, Adult and Public Health
- Ensure maximum collaboration and transparency between RBKC, LBHF and WCC

3.10 To achieve this, the below workstreams have been established to focus on delivering the programme outputs.

- HR
- Legal
- Finance
- Commissioning
- Adult Social Care/Public Health
- Children’s Services

3.11 Each workstream will monitor and review all existing external relationships/contracts; the cost of any new contracts; contracts that extend beyond the end of Tri-Borough, any financial arrangements supporting them; and liaison with supply chain as necessary.

3.12 Although the workstreams are being led by the relevant service areas, staff from other services will support and provide expertise as appropriate.

3.13 A Communications Strategy will also support this work, ensuring that all staff, staff in affected services and partners / external stakeholders are updated as and when appropriate.

3.14 Programme Boards have been established at member and officer level and there are regular meetings with RBKC at both levels.

3.2 Issues

3.2.1 The table below provides an outline of any risks identified so far, as well as the mitigating actions being undertaken.

Risk	Mitigation
Governance arrangements to be agreed	Identify and approach proposed programme members
Risk to quality of BAU of key front line services – Children, Adult and Public Health Services	Timeline of events to reassure staff. Comms plan to address key areas of concern. Service areas to develop plans for delivery until new arrangements in place, monitoring risks and issues
Loss of staff due to uncertainty – significant numbers of staff will be affected	Timeline of events to reassure staff. Comms plan to address key areas of concern. Identify contingency budget and resources
Financial implications – Risk to budgets due to the move to Bi-Borough Service for Children, Adult and Public Health Services	Finance to identify financial implications and budget required. Secure contingency budget
Risk to realised non cashable transformation benefits – service efficiencies and improvements	Service areas to develop plans for delivery until new arrangements in place, monitoring risks and issues. Contingency plans developed
Smaller services may not be able to separate out easily, e.g. Adoption services, Education Services, Youth Offending Services	Design new target operating model for these areas
Shared functions may need to change e.g. Backoffice, IT, training, complaints	Review and if required, design new target operating model subject to discussions with LBHF
Approach from Children, Adult and Public Health Services: Should PH be its own workstream Approach to joint working: definition of scope, stakeholder engagement, approach to delivery	Decision at board level about: <ul style="list-style-type: none"> • PH as a separate or integrated workstream • Scope

3.3 Timelines

- 3.3.1 Following the serving of the s113 notice to Hammersmith & Fulham, the three authorities have up to 12 months to disaggregate the services, but can, with agreement, potentially start new services earlier.
- 3.3.2 As work is still at a very early phase, key timelines and milestones for workstreams are still being confirmed. However, officers will share any agreed timelines with the Westminster Scrutiny Commission on 24 May.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact Anne Pollock x2757
apollock@westminster.gov.uk**

APPENDICES:

Appendix A - Letter to LB Hammersmith & Fulham serving notice of termination in respect of: Tri-borough Children Services, Tri-borough Adult Social Care and Tri-borough Public Health Services

Letter to Nigel Pallace, then chief executive and Hitesh Jolapara, s 151 officer

Appendix A

28 March 2017

Dear Nigel and Hitesh

Re: Notice of termination in respect of: Tri-borough Children Services, Tri-borough Adult Social Care and Tri-borough Public Health Services

It is with great regret that we are writing this letter, enclosing notices of termination from the Royal Borough of Kensington and Chelsea and Westminster City Council, under our s113 Agreements, in respect of Tri-borough Children Services, Tri-borough Adult Social Care and Tri-borough Public Health Services.

We have been aware for some time that the Leader of LBHF, Cllr Cowan, has been stating to staff that "Tri-borough is dead". Indeed, this has even appeared in corporate documents. With the resignation of the Executive Director for Adult Social Care & Public Health, and the subsequent review by Mrs Redmond as to the future of these services, it is apparent that the Leader of LBHF has given a clear steer that LBHF wishes to pursue a "mono-borough" People's Service. We are also aware that since January 2017, consultants have been engaged to design such a People's Service to include not only Adult Social Care, but also Children Services and Public Health.

It is now beyond doubt that LBHF is making alternative plans for these services, which will inevitably lead to the termination of our shared arrangements. The lack of formal notice in the face of LBHF's clear intention is a source of uncertainty, which in turn is causing anxiety to our shared staff in all three Councils, and placing potential risks to our joint services for vulnerable people in our respective boroughs.

As you know, we have never been given any reasons by LBHF, nor any rationale for the wish to dismantle the Tri-borough arrangements for these services in relation to these high performing and critical services.

When the Tri-borough arrangements were first established, it was always clear that individual Council sovereignty should not be undermined, and the agreement be above party politics. As a result, we have all reduced costs during a time of fiscal austerity and improved our collective service offer to end users and our residents through the various shared arrangements. Indeed, the Ofsted inspection of Children's Services in March 2016, found that the partnership across the three boroughs contributed to the high quality of each borough. Key Stage 2 and GCSE results improved in all three boroughs with a far smaller school standards service, helping to achieve a high percentage of schools judged by Ofsted to be good or outstanding - well above national averages - in each borough. In January 2016, HM Inspectorate of Probation commented positively on the shared Youth Offending Service.

There are numerous other examples where we can show that by working together, the three boroughs have achieved great results with less money and fewer staff. We are aware though that there have also been major issues with two of our jointly procured contracts, i.e. SEN Transport and Managed Services. However, these have not been successful for a number of reasons, which are not solely due to the partnership itself.

Nonetheless, it is clear that LBHF Members do not see a future for the Tri-borough partnership. Furthermore, it is regrettable that in the last two years or so, LBHF have only been able to focus on some of the drawbacks. This has been demoralising for senior managers and unfair to hard working staff, who are doing an excellent job for residents across the three boroughs. Moreover, LBHF's approach has slowed the further progress our shared services could have made had LBHF focused on supporting the partnership rather than undermining it.

We would not have chosen to end the Tri-borough arrangements, which our Councils believe to have been a great success. However, in order to support our shared staff, to provide them with some certainty and to protect our services, we have no choice but to serve notice ourselves. The attached notices will give effect to LBHF's intentions to terminate our shared services arrangements. You will see that under our s113 Agreements the notice requires all parties, including LBHF, to minimise both disruption to the delivery of services and to staff during the period of notice. We would expect this as a minimum and ideally, we should form a joint project team to oversee the transition.

Of course, serving of the notice does not prevent the three Councils from agreeing to review the current arrangements and find alternative ways of working together. We are prepared to work on different models and willing to keep certain services together, e.g. fostering and adoption, from which all three boroughs' children have benefited.

If, on reflection, LBHF decides to continue some of our joint arrangements, we would need greater commitment from LBHF to those shared services. However, if LBHF is not willing to explore any options for continued partnership, perhaps on a different basis, then we would invite you to consider agreeing earlier cessation of services by mutual agreement.

As previously stated, it is with great regret that we find ourselves having to serve notice, essentially to give effect to LBHF's intention to terminate the shared services arrangements in relation to Tri-borough Children Services, Tri-borough Adult Social Care and Tri-borough Public Health Services. We would be neglectful of both our staff and the interests of our residents if we did not do so.

Yours sincerely,

Nicholas Holgate, Town Clerk
Executive

Charlie Parker, Chief

cc Kim Dero, LBHF

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