KPMG

cutting through complexity™

Report to those charged with governance (ISA 260) 2013/14

City of Westminster Council

30 June 2014

Contents

The contacts at KPMG in connection with this report are:

Andrew Sayers
Partner
KPMG LLP (UK)

Tel: 0207 694 8981
andrew.sayers@kpmg.co.uk

Sally-Anne Eldridge
Senior Manager
KPMG LLP (UK)

Tel: 0207 311 2146
sally-anne.eldridge@kpmg.co.uk

Grant Slessor
Pension Fund Manager
KPMG LLP (UK)

Tel: 0207 311 3849
grant.slessor@kpmg.co.uk

Richard Hewes
Assistant Manager
KPMG LLP (UK)

Tel: 0207 694 2519
richard.hewes@kpmg.co.uk

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the appointed engagement lead to the Authority. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their contact number is 0303 444 8330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2014 for both the Authority and its Pension Fund; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at City of Westminster Council ('the Authority') in relation to the Authority's 2013/14 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- our work to support our 2013/14 value for money (VFM) conclusion.

Financial statements

Our *External Audit Plan 2013/14*, presented to you in February 2014, set out the four stages of our financial statements audit process.

This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place during April 2014 (interim audit) and June 2014 (year end audit) for work relating to the Authority, and in June 2014 for work relating to the Fund.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2013/14 financial statements of the Authority and the Fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.

Completion	At the date of this report our audit of the financial statements is substantially complete with the exception of our Auditor closing procedures. Before we can issue our opinion we require a signed management representation letter, which covers the financial statements of both the Authority and the Fund. We will also complete the final manager and partner review and closedown procedures in advance of issuing our opinion. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.
Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements shortly after the approval of the financial statements by the Audit and Performance Committee on 30 June 2014. We will also report that the wording of your Annual Governance Statement accords with our understanding. We also anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements in the Authority's Statement of Accounts. The Pension Fund Annual Report is not currently available for review, however Pension Fund Regulations do not require the Pension Fund Annual Report to be published before 1 December 2014.
Accounts production and audit process	The Authority worked to an accelerated closedown timetable this year with the aim of having an audited set of accounts by 30 June 2014. We agreed with officers that a draft set of financial statements would be made available for audit on 19 May 2014 and that the draft financial statements would be made available for public inspection at the same time. Draft financial statements were provided to audit on 19 May 2014, but officers advised that they would be making changes to a number of notes and that we were to expect revised draft financial statements later in the week. At this time officers identified and corrected a number of errors in the following notes: ▪ Note 7 Adjustments between accounting basis and funding basis under regulations, in particular capital grants unapplied and the capital receipts reserve; ▪ Note 12 PPE; ▪ Note 25 Unusable reserves; and ▪ Note 41 Capital expenditure and capital financing. The Authority provided a second version of the draft financial statements on 22 May 2014 and it is on this version that we started the audit. We have identified a higher number of errors in the accounts than in previous years and the Authority also identified a significant number of further errors. A key contributor to this was the accelerated timetable which resulted in a reduced level and robustness of quality assurance over the draft financial statements.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Audit adjustments	Our audit identified a total of seven audit adjustments with a total value of £93 million, detailed in Appendix 3. In addition we identified seven presentational adjustments, detailed in Appendix 4. The Authority identified a total of c150 adjustments during the course of the final audit process. The impact of the adjustments is: ▪ No impact on the balance of the general fund account as at 31 March 2014; ▪ Increase in the surplus on provision of services for the year by £148 million; and ▪ Decrease the net worth of the Authority as at 31 March 2014 by £17.7 million. We have included a full list of significant audit adjustments at Appendix 3. All of these were adjusted by the Authority.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The changes to the Code that affected accounting for NDR were not appropriately accounted for by the Authority in the draft accounts and we therefore added this as a significant risk area for the audit. Detail of the amendments required is included in Appendix 3.
Control environment	The Authority's organisational control environment is effective overall and we have not identified any significant weaknesses in controls over key financial systems. We have raised a number of recommendations in relation to the year end process highlighted above, which are summarised in Appendix 1. There are two high risk recommendations, one which relates to the quality assurance processes prior to submitting the draft financial statements for audit and one which relates to reviewing changes in the Code and errors from prior years. The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*
VFM conclusion and risk areas	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. However compliance with the Procurement Code and internal financial regulations continues to require improvement, with the identification of weaknesses (in particular for contract letting, extensions and formalising contract documentation). These emerged from our work considering objections to the Authority's accounts for the 2008/09 to 2011/12 financial years. Whilst we note that the Authority has made improvements in this area, there is still further work required to embed the improvements across all areas of procurement activity. Our audit report will therefore include a Report by Exception highlighting these weaknesses.

Proposed opinion and audit differences

Our audit of the Authority's financial statements identified a total of seven audit adjustments and seven presentational adjustments. In addition the Authority identified c150 adjustments during the course of the final audit process.

The impact of these adjustments is:

- **No movement on the balance on the general fund and HRA accounts as at 31 March 2014;**
- **Increase in the surplus on the provision of services for the year by £148 million; and**
- **Decrease the net worth of the Authority as at 31 March 2014 by £17.7 million.**

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit and Performance Committee on 30 June 2014.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Our audit identified a total of seven significant audit differences, which we set out in Appendix 3. These have been adjusted in the final version of the financial statements.

The most significant audit difference in monetary value are:

- Non Domestic Rates (NDR): Reduction in gross income and expenditure in central services in the CIES of £444.3m, with no net impact on the CIES. Reduction in short term debtors of £19.3m, a reduction in short term creditors of £68.2m and an increase of £49m in provisions.
- Increase in HRA gross expenditure in the CIES of £82.6m. The figure was omitted in the second version of the draft financial statements meaning gross expenditure in the CIES did not cast. There was no impact on the net surplus.
- Upwards revaluation of council dwellings of £167.7m incorrectly taken to revaluation reserve, which should have gone through the I&E Statement to reverse a previous impairment. There was no impact on the General Fund or HRA balances.
- Three schools became Academies during the year. Two of these transfers were not accounted for initially. When the accounting transactions were processed they were processed incorrectly as revaluations as opposed to a disposal at nil proceeds.

The following tables reflect the aggregate of the Audit adjustments as set out in Appendix 3 and the adjustments identified by the Authority.

Movements on the General Fund 2013/14

£m	Pre-audit	Post-audit
Surplus on the provision of services	£2.7m	£150.6m
Adjustments between accounting basis & funding basis under Regulations	£30.3m	(£117.6m)
Transfers to/ from earmarked reserves	(£29.6m)	(£29.6m)
No movement on General Fund & HRA balances	**£3.4m**	**£3.4m**

Balance Sheet as at 31 March 2014

£m	Pre-audit	Post-audit
Property, plant and equipment	£1,850m	£1,830m
Other long term assets	£445m	£445m
Current assets	£703m	£684m
Current liabilities	£432m	£363m
Long term liabilities	£964m	£1,011m
Net worth	**£1,602m**	**£1,585m**
General Fund	£35m	£35m
Other usable reserves	£223m	£225m
Unusable reserves	£1,344m	£1,325m
Total reserves	**£1,602m**	**£1,585m**

Proposed opinion and audit differences

Pension Fund

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements.

Annual Governance Statement

The wording of your Annual Governance Statement accords with our understanding of the Authority.

In addition the Authority identified a number of further amendments.

The tables on page 5 show the total impact of all adjustments on the Authority's movements on the General Fund and HRA for the year and the balance sheet as at 31 March 2014.

In addition, we identified a number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2013/14 ('the Code')*. These are shown at Appendix 4. The Authority addressed all of the issues identified in the final version of the financial statements.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit and Performance Committee on 30 June 2014.

We identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code*.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

We have made a number of comments in respect of its format and content which the Authority has amended.

Pension Fund Annual Report

The Pension Fund Annual Report has not been prepared yet and we are yet to confirm that:

- it complies with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008; and
- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

The statutory deadline for publishing the document is 1 December 2014. The Pension Fund Annual Report is not yet available for review. Once we have reviewed the Pension Fund Annual Report we will need to complete additional work in respect of subsequent events to cover the period between signing our opinion on the Statement of Accounts and Pension Fund Annual Report. We will then issue an opinion in relation to the Fund's financial statements contained within the Pension Fund Annual Report .

Section three

Key areas of audit focus

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of the issues appropriately.

In our *External Audit Plan 2013/14*, presented to you in February, we identified the key areas of audit focus affecting the Authority's and the Fund's 2013/14 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the areas of audit focus that are specific to the Authority.

Additionally, we considered the risk of management override of controls, which is a standard risk for all organisations.

Our controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual, did not identify any issues.

Key area of audit focus	Issue	Findings
Property, Plant and Equipment and Investment Properties	The Authority has a significant asset base primarily relating to Council dwellings and Investment properties. The potential for impairment/valuation changes makes these balances inherently risky due to the high level of judgement and estimation uncertainty.	The Authority has undertaken a valuation exercise using the external valuation firm Lambert Smith Hampton, which has involved the valuation of the Authority's operational and investment properties. We have reviewed the accounting treatment following the revaluation and have not identified any issues. The Authority has also correctly followed the new Code guidance on revaluations of land and buildings. We also reviewed the professional valuation of the Authority's Council Dwellings. We did not identify any issues relating to the accounting treatment for the valuation.
Cash	Cash has a pervasive impact on the financial statements and provides comfort for other areas of the financial statements.	We have sought external bank confirmations and reviewed the controls over bank reconciliations. We are satisfied that these controls have operated throughout the year and that the cash figure in the financial statements is materially accurate. We also followed up on the one recommendation from 2012/13 relating to bank reconciliations and found that the recommendation had been implemented appropriately. Details of prior year recommendations are included in Appendix 2.

Section three

Key areas of audit focus

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

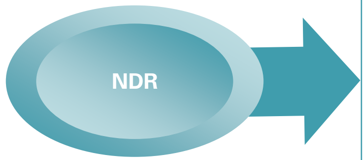
Key audit risk	Issue	Findings
Pension costs and liabilities	Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement.	We have confirmed that the pensions costs and liabilities recognised in the accounts were accurately drawn from the report from the actuary. We have reviewed the accounting treatment for associated balances and transactions in order to confirm that it was in line with the requirements of the CIPFA code. We have not identified any issues to report.
LGPS triennial valuation	During the year, the Pension Fund has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The share of pensions assets and liabilities for each admitted body is determined in detail, and a large volume of data is provided to the actuary to support this triennial valuation. The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts.	We reviewed the data provided to the actuary and confirmed that it was consistent with underlying records. We did not identify any issues to report.

Section three

Significant audit risks

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the majority of issues appropriately.

We did identify issues with the treatment of NDR which was not treated in line with the new requirements of the Code.

Key audit risk	Issue	Findings
	Due to the introduction of Business Rate Localisation, with effect from 1st April 2013, there were significant changes in the requirements for the disclosure of NDR balances and transactions, as per the CIPFA Code. Furthermore, there were significant variances in the balance sheet and the CIES as a result of the change of accounting treatment. These factors meant that non-domestic rates were reassessed as a risk area for the audit and therefore have been included as a key financial statement audit risk.	Upon receipt of the draft financial statements, we identified unexpected material variances relating to NDR. We reassessed our approach to NDR and treated it as a significant risk. We identified that the new accounting requirements were not appropriately followed. As a result, several audit misstatements were identified and subsequently amended by the Council. These have been outlined in Appendix 3.

Accounts production and audit process

We have noted a deterioration in the quality of the draft financial statements and the supporting working papers as a result of the compressed accounts timetable.

Officers dealt with queries as they arose, however the volume of adjustments and issues identified made this a labour intensive process for both the Authority and the audit team.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has produced accounts in a compressed timescale compared to previous years. This has resulted in a deterioration in the quality of the financial statements. In addition, two key members of the finance team are new to their roles this year. At the interim visit the trial balance could not be easily reconciled to the accounts. The Authority reviewed this in advance of the final accounts audit and addressed the issues identified. We have raised a recommendation on this in Appendix 1. There is scope to improve the quality of the draft financial statements by building in a robust quality assurance process prior to submitting the accounts for audit. We have raised a recommendation on this in Appendix 1.
Pension fund audit	The audit of the Fund was completed alongside the main audit. There are no specific matters to bring to your attention.
Response to audit queries	Officers resolved the majority of audit queries in a reasonable time, although not within the 24 hour turnaround that had been agreed as part of the compressed accounts production and audit timeline.

Element	Commentary
Completeness of draft accounts	We received a complete set of draft accounts on 19 May 2014 which were also made available for public inspection. We received a second version of the draft financial statements on 22 May 2014. The Authority has made a number of adjustments to its draft financial statements throughout the audit. A schedule providing Members with detail of the c150 amendments has been included in the papers for the Audit and Performance Committee.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued on 11 February 2014 and discussed with the Head of Financial Management and Control, set out our working paper requirements for the audit. The quality of working papers was generally of a good standard, in line with the standards specified in our *Accounts Audit Protocol*. However, not all working papers were provided at the outset of the audit and we did experience some delays in the turnaround of queries towards the end of the audit process.
Group audit	To gain assurance over the Authority's group accounts, we placed reliance on work completed by: • PwC on the financial statements of City West Homes Ltd; and • Jones Avens (auditor) on the financial statements of Westminster Community Homes Ltd. There are no specific matters to report relating to the group audit.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13*.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

Appendix 2 provides further details.

Organisational control environment

Your organisational control environment is effective overall.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Key findings

We consider that your organisational controls are effective.

Aspect	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3

Key:
1. Significant gaps in the control environment.
2. Deficiencies in respect of individual controls.
3. Generally sound control environment.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's and the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter.*

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of City of Westminster Council and City of Westminster Council Pension Fund for the year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and City of Westminster Council and City of Westminster Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chair of the Audit and Performance Committee and the Acting S151 Officer for approval by the Audit and Performance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest' that arise from the audit of the financial statements.

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Concluding the audit

The audit cannot be formally concluded and an audit certificate issued, as we are considering two objections relating to 2008/09, 2009/10, 2010/11 and 2011/12. At the start of the year we had seven objections relating to parking and other procurement issues. We have decided five of these and the findings and weaknesses identified are included in a separate paper for this committee. We received an additional objection during the year relating to the licensing of sex shops which has also been decided. Our work is on-going with regard to two objections (pay by phone and the debt recovery contract).

As a result of the on-going objections, we will issue our opinion on the financial statements and the VFM conclusion but without the certificate. We will re-visit and finalise our audit report when the objections are decided and we are able to certify the audit as closed.

As a result of the early audit work completed this year, we have not yet audited the Whole of Government (WGA) return or the Pension Fund Annual Report. We will provide an update on progress with this work at the next Audit and Performance Committee.

VFM conclusion

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following page includes further details of our VFM risk assessment and our specific risk-based work.

Conclusion

Our work in this area is substantially complete. Subject to the completion of closure procedures we anticipate concluding that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

However compliance with the Procurement Code and internal financial regulations continues to require improvement, with the identification of weaknesses (in particular for contract letting, extensions and formalising contract documentation). These emerged from our work considering objections to the Authority's accounts for the 2008/09 to 2011/12 financial years. Whilst we note that the Authority has made improvements in this area, there is still further work required to embed the improvements across all areas of procurement activity. Our audit report will therefore include a Report by Exception highlighting these weaknesses.

The impact of objections on our VFM conclusion is considered further at page 16.

Specific VFM risks

We identified one specific VFM risk.

We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to this risk area are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit; and
- considered the results of relevant work by the Authority, other inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, other inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	Based on the current medium term financial plan, which covers the period 2015/16 – 2017/18, there is a significant savings requirement over the three year period (£23m per annum). This is on top of the £84m of savings achieved in 2011/12 and 2012/13. The savings required for 2013/14 of £12m have been identified and early indications – including the 2012/13 achievements are positive. A further £19m of savings will be required in 2014/15. Many of these savings requirements are due to be delivered via the Tri borough working arrangements. However, finding additional savings year after year will be a challenge. The Authority will need to continue to manage its savings plans to secure longer term financial and operational sustainability and ensure that any related liabilities are accounted for in its 2013/14 financial statements as appropriate.	Our main accounts work has confirmed that the Authority has met its £12m savings targets for 2013/14. As part of our Value for Money work we have reviewed the Authority's processes for delivery of its savings plans and consider that robust, achievable plans are in place. The Authority has a current medium term financial plan in place which gives due consideration to potential funding reductions. Based on its assumptions there will be further funding reductions of £19m in 2014/15 and £23m per annum for the following three years. Provisional service level savings plans have already been identified for 2014/15. The Authority is refreshing its medium term financial plan. Service and Corporate Areas have been tasked with identifying £100m of savings, with £56m already identified. Detailed proposals are to be presented to Cabinet in the autumn with the objective of agreeing a two year budget – for 2015/16 and 2016/17 onwards.

VFM conclusion

A number of weaknesses have emerged from our work considering the objections to the Authority's accounts from 2008-09 to 2011-12. Our audit report will include a Report by Exception highlighting these weaknesses.

Objections

During the year we have considered and decided a number of objections relating to the Authority's accounts from 2008-09 to 2011-12. A number of examples of non-compliance with the proper procedures required by the Council's Procurement Code and internal financial regulations have been identified, in particular:

- contract letting, where the Council failed to publish a contract award notice;
- formalising contract documentation, with excessive delays and missing documentation;
- extending contracts beyond that allowed in the original contract, and
- instances where reporting to Members could have been clearer.

We are aware that the Council has taken action to improve its procurement function. This includes a number of new appointments to strengthen the team, including a permanent role of Chief Procurement Officer. The 'Procurement and Commercial Foundations Programme' has also been implemented. This programme is a platform for improving procurement and corporate contracts management with a more professional and commercial focus.

Additionally in January 2014 a new Tri-borough procurement solution called capitalEsourcing was launched which should improve contract management, the management of the procurement pipeline and help ensure compliance with the Procurement Code. However, we recognise that it will take time for these initiatives to become embedded across the organisation to ensure a consistent improved approach to procurement.

We are required to consider matters coming to our attention having regard to our Code responsibilities. In isolation the weaknesses identified by our work on the objections are not significant enough as to impact on our value for money conclusion and many are historic. However, taken together they demonstrate weaknesses in the Authority's arrangements for managing risks and maintaining a sound system of internal control in respect of procurement. Our audit report will therefore include a Report by Exception highlighting these weaknesses.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations		
❶ ***Priority one***: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	❷ ***Priority two***: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	❸ ***Priority three***: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❶	**Quality assurance process and closedown** We acknowledge that the financial statements were prepared in a much reduced time period for the first time this year. This presented inevitable challenges in preparing a robust set of draft financial statements for audit. There is a risk that in preparing the draft financial statements in a much shorter timeframe that the Quality Assurance processes get reduced or do not happen at all. This would appear to be the case this year, with a marked deterioration in the quality of the draft financial statements and the Annual Governance Statement which has resulted in a number of adjustments and other amendments. The Authority should review its accounts preparation timetable for future years and ensure that it includes sufficient time for a robust quality assurance process prior to submitting the draft accounts for audit. The Authority may also want to re-consider its plan to bring the timetable forward further next year, focusing instead on improving the quality of the draft financial statements provided for audit. The Authority should also commit to a hard close at month nine at which point audit will be able to review both CIES and balance sheet entries, reducing the burden at year end.	**Accepted** Due date: 31 March 2014 Full management response is included in Appendix 7.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	❶	**Review of the Code and prior year errors** (i) Our review of the accounting treatment for NDR identified that the changes in the Code that impact NDR accounting entries were not implemented appropriately in the draft financial statements, which led to a number of material adjustments as detailed in Appendix 3. (ii) Our testing of financial instruments and the Movement in Reserves Statement identified a number of errors including the omission of cash and intercompany debtors in the financial instruments note and misclassifications in reserves. We identified similar errors in both notes in the prior year audit which were corrected as part of the audit process. It is disappointing that these issues were not addressed in the 2013/14 draft financial statements. (iii) The identification of errors, processing of amendments and the tracking of amendments increases the resources needed for the audit, takes officer time and has potential implications for the audit fee. (iv) The Authority should ensure that in preparing draft financial statements, any new requirements of the Code are accounted for appropriately and the errors made in prior years are reviewed and not repeated.	**Accepted** Due date: 31 March 2015 Full management response is included in Appendix 7.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
3	2	**Mapping of the trial balance to the financial statements** The trial balance can not be easily reconciled to the financial statements for income and expenditure and is overly reliant upon manual adjustments. This resulted in a number of classification errors in the SeRCOP that were identified during our testing at the interim audit. We acknowledge the improvement in the process of reconciling the trial balance to the financial statements made by the Authority between the interim and final accounts audits. Whilst this has been an issue for many years, it is exacerbated as the closedown time frame is reduced and processes need to be as efficient as possible. The Authority is aware of this and is in the process of implementing a new financial ledger system, although recent discussions suggest that officers are unclear about whether this will address the problem and mean that less manual intervention is required. In not being able to easily reconcile the trial balance to the financial statements and having to rely upon manual adjustments, there is a risk that the Authority does not include all of the transactions that have occurred in a financial year in its financial statements. We recommend the trial balance is reformatted for 2014/15 so that it can easily be reconciled to the financial statements by filtering relevant subjective codes.	**Accepted** Due date: 31 March 2015 Full management response is included in Appendix 7.

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
4	2	**Closedown for 2014/15** We are aware the Authority plans to produce draft financial statements for audit in 2014/15 working to a more compressed timescale than was followed for 2013/14. There is a risk that in focusing on reducing the closedown period, the quality of the draft financial statements will reduce further as resource is committed to achieving an earlier closedown rather than ensuring the quality of the draft financial statements presented to audit. To achieve the reduced timescale, the Authority will need to produce and implement a robust timetable for the whole of the 2014/15 financial year. This should involve the presentation of auditable figures for all primary statements to audit in advance of the year end, which will require a move away from the current process of allowing a significant number of transactions to be posted in months twelve and thirteen. For example, this will require a change in the way Property, Plant and Equipment (PPE) is accounted for at the Authority (where currently the majority of transactions are reflected in the Fixed Asset Register at the year end) and will require a fundamental change in the approach of business partners.	**Accepted** Due date: 31 March 2015 Full management response is included in Appendix 7.

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2012/13* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year	2
Remain outstanding	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 June 2014
1	2	**Revaluation of Investment Property** **Issue** The Code requires investment properties to be revalued annually. During 2011-12 the Authority made a conscious decision not to revalue all investment properties due to resource constraints. While it was not the intent to repeat this for 2012-13, our work in this area noted that 16 investment properties with a value of £9.9m had not been subject to revaluation in year. **Risk** Not revaluing investment properties on an annual basis is contrary to the requirements of the *CIPFA Code of Practice*. Furthermore there is a risk that not revaluing all investment properties results in a material over or understatement of the Council's asset values. We have extrapolated the potential impact of this issue and are satisfied that this is not material to the 2012-13 financial statements. **Recommendation** Ensure that all investment properties are subject to revaluation as at 31 March 2014, and annually thereafter.	**Responsible Officer** Head of Financial Management & Control and Strategic Director of Housing Regeneration and Property **Due Date** 31 March 2014	**Implemented**

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2012/13.*

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 June 2014
2	3	**Bank Reconciliation** **Issue** Our review of the Council's bank reconciliation noted that while there is a thorough understanding of the nature of the Council's cash position, at the date of audit this reconciliation includes 1,798 items over six months old with a net value of £15,997.86 which should be cleared down to ensure that this key control retains focus on current matters. **Risk** A high volume of older items within the bank reconciliation creates a risk that items remain un-reconciled and are not properly accounted for and this document becomes confusing and ultimately that users lose focus on current relevant matters. **Recommendation** The Council should work with its shared service provider to clean up older items within the bank reconciliation to ensure that this remains an effective and efficient control focused on current matters.	**Responsible Officer** Head of Financial Management & Control **Due Date** 31 January 2014	**Implemented**

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

A number of further amendments were identified by the Authority during the audit. A full schedule of all amendments has been provided to the Audit and Performance Committee by the S151 Officer.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit and Performance Committee). There are no uncorrected misstatements. We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences – Authority

The following table sets out the significant audit differences identified by our audit of City of Westminster Council's financial statements for the year ended 31 March 2014.

	Impact					Basis of audit difference
No.	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Dr gross income for central services to the public £444,253K Cr gross expenditure for central services to the public £444,253K					The business rates retained by the Council and the tariff payable to Central Government were recognised as gross income and expenditure, respectively, in the central services to the public line of the SERCOP. In accordance with the Code, only the net income should have been recognised and this should have been presented as taxation and non-specific grant income.
2			Cr short-term debtors £19,250K	Dr short-term creditors £68,205K Cr provisions £48,955k		The year-end balances with regards to NDR collections were not disclosed in line with the Code, which has been updated since 2012/13 due to the introduction of Business Rate Localisation, effective from 1 April 2013.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

A number of further amendments were identified by the Authority during the audit. A full schedule of all amendments has been provided to the Audit and Performance Committee by the S151 Officer.

No.	Impact: Income and Expenditure Statement	Impact: Movement in Reserves Statement	Impact: Assets	Impact: Liabilities	Impact: Reserves	Basis of audit difference
3	Dr HRA Gross Expenditure £82,618k	Cr HRA £82,618k				HRA expenditure was excluded from version two of the draft financial statements. We acknowledge that this was included in the original draft accounts received on 19 May 2014. The error resulted in gross expenditure in the CIES not casting, however there was no impact on the net surplus as the error was a consequence of the balance not being transferred correctly from a supporting schedule.
4	Cr Net cost of services £167,718k	Dr General fund £167,718k			Dr Revaluation Reserve £167,718k Cr Capital Adjustment Account £167,718k	The value of the Authority's Council dwellings increased in 2013/14. There was a reduction in value in 2010/11 following a change in the social housing factor from 37% to 25%. The upward revaluation in 2013/14 was not matched to the impairment that was taken through I&E in 2010/11 and was incorrectly taken to the revaluation reserve.

Appendix 3: Audit differences

This appendix sets out the significant audit differences.

A number of further amendments were identified by the Authority during the audit. A full schedule of all amendments has been provided to the Audit and Performance Committee by the S151 Officer.

	Impact					
No.	**Income and Expenditure Statement**	**Movement in Reserves Statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
5	Dr Net Cost of Services £2,485k Cr Other operating expenditure £2,485k					The Authority received some overage monies during the year. They were initially misclassified in Net Cost of Service. An adjustment was made to correctly include this income as a gain on disposal.
6	Cr Net cost of services £12,705k Dr Other operating expenditure £24,009k	Cr General fund £11,304k				Three schools became Academies during the year. These transactions were incorrectly processed as revaluations. The correct accounting treatment is to account for the transfers as disposals, in line with how they were accounted for in the previous year.
7	Dr Net cost of services £3,653k Cr Taxation and non specific grant income £3,653k					Third party enhancements to Council assets as part of planning agreements were accounted for as general income. The correct accounting treatment is to recognise such amounts as grants without conditions.
	Cr £73,796k	**Dr £73,796k**	**Cr £19,250k**	**Dr £19,250k**	**-**	**Total impact of audit adjustments**

Appendix 4: Presentation differences identified by audit

This appendix sets out the significant presentational differences identified by audit.

A number of further amendments were identified by the Authority during the audit. A full schedule of all amendments has been provided to the Audit and Performance Committee by the S151 Officer.

	Impact		
No.	**Note number**	**Note description**	**Description of presentational adjustment**
1	AGS	Annual Governance Statement	We identified one material inconsistency between the AGS and the draft financial statements. The draft AGS referred to the Authority's annual capital programme as being 'just over £30 million'. This did not agree with the financial statements and was amended to disclose the capital programme as being 'just over £100 million'.
2	MiRS and note 7	Movement in Reserves Statement Adjustments between accounting basis and funding basis under regulations	We identified a number of classification errors internal to the Movement in Reserves Statement and in the adjustments between accounting basis and funding basis under regulations note. The errors did not impact the balance of reserves. Similar errors were also identified by audit in the previous year. We have raised a recommendation regarding the follow up of prior year errors in Appendix A.
3	16	Financial instruments	We identified two errors in the Financial Assets Loans and Receivables balance whereby cash had been excluded from the total balance and two intercompany loans had been incorrectly included. This led to an adjustment of £153 million and led to the correction of a follow through error in the Fair Value analysis. The Authority had also incorrectly reflected Financial Instrument Creditors in Note 16. PFI commitments and Finance Lease liabilities were incorrectly included as long term creditors in Note 16 and capital creditors had been incorrectly excluded. Correction of this led to an adjustment of £52m. The corrections to the Financial Instruments note had no impact on the primary financial statements.
4	27	Cash flows from investing activities	The Authority incorrectly classified £16.2 million as purchase of short-term and long-term investments as opposed to proceeds from short and long term investments. The required adjustment had no impact on the Total Cash Flows from Operating Activities line or on the Cash Flow Statement.

Appendix 4: Presentation differences identified by audit

This appendix sets out the significant presentational differences identified by audit.

A number of further amendments were identified by the Authority during the audit. A full schedule of all amendments has been provided to the Audit and Performance Committee by the S151 Officer.

	Impact		
No.	**Note number**	**Note description**	**Description of presentational adjustment**
5	36	Officer's remuneration	A number of changes were required to the Senior Officer Remuneration note.
6	HRA CIES	Housing Revenue Account Income and Expenditure Comprehensive Income and Expenditure Statement	In the draft financial statements, the total income and expenditure in the CIES did not reconcile to the HRA. This was the result of inconsistent treatment between the two preparers of the statements and a number of trivial errors which required amendment so that the statements would reconcile.
7	Collection Fund	Collection Fund	The Collection Fund did not include the Business Rates Supplement refunds and associated income. The refunds totalled £1.7m which was matched by £1.7m income. The error resulted in income and expenditure being grossed up by the same amount, so there was no impact on the Collection Fund deficit.

Appendix 5: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's *Standing Guidance for Local Government Auditors* ('Audit Commission Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit and Performance Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 5: Declaration of independence and objectivity

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed to members of the Audit and Performance Committee.

Auditor declaration

In relation to the audit of the financial statements of City of Westminster Council City of Westminster Council Pension Fund for the financial year ending 31 March 2014, we confirm that there were no relationships between KPMG LLP and City of Westminster Council City of Westminster Council Pension Fund , its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

Appendix 6: Materiality and reporting of audit differences

For 2013/14 our materiality is £22 million for the Authority's accounts. For the Pension Fund it is £17.5 million.

We have reported all audit differences over £1.1 million for the Authority's accounts and £0.9 million for the Pension Fund to the Audit and Performance Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the single entity and the group at the start of the final accounts audit. We reduced materiality from £31 million as reported in the Audit Plan in February 2014 to £22 million. In part our reassessment reflected the more compressed timetable for the year end accounts production.

Materiality for the Council's accounts was set at £22 million for the Authority's single entity accounts which equates to around 2 percent of gross revenue. Materiality for the group accounts was also set at £22 million.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Performance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Performance Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.1m.

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Performance Committee to assist it in fulfilling its governance responsibilities.

Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £17.5 million which is approximately 2 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £0.9 million for 2013/14.

Appendix 7: Management response to audit recommendations

Management has responded to the four recommendations that we have made in Appendix 1.

Recommendation 1- Quality assurance process and closedown

Management response:

The decision to adopt an accelerated closedown timetable for 13/14 was taken in early 2014. Officers within Corporate Finance acted promptly to prepare a detailed closure timetable concluding in publication of the accounts on 30th June 2014, a three month improvement on prior years. This timetable included the adoption of a hard-close for Period 10 (January 2014) with transactions for periods 1 to 10 providing a sound basis for the interim audit.

Whilst the Council recognises that there were a number of areas which can inevitably be improved in future years and which the Council is already working on. The benefits of the accelerated closure programme are very considerable and more than outweigh the challenges that have been faced.

The early closure of accounts is a significant driver of efficiency and therefore in the value that Finance can bring. In terms of efficiency, the early release of finance staff from the closedown process ie the 30 June rather than the 30 September means the team is freed up to concentrate on other financial issues such as the MTP and further improving and refining financial management processes.

The early closure of accounts also brings with it the following benefits:

- Embedded and refined project management skills. The closure of accounts is a significant project involving third parties, officers around the Council and the auditors. Project management methodology will continue to be developed for 2014/15.
- It focuses attention on developing and improving systems to further improve efficiency and streamlining financial reporting.
- The process drives continuous review and improvement.
- Staff experience, motivation and career development is enhanced.
- It is also the case that the reputation of Westminster Council finance will be improved by these significant developments.
- Pride in the job is promoted.
- The early programme builds in capacity to address emerging issues in a timely manner should they arise.
- It sets a standard of quality, aspiration and timeliness which is then applied to other financial work

The Government via the CLG has a drive on improving local accountability to the public and the presentation of early audited financial information is a key part of this. The CLG has consulted recently on accelerating local authority closure of accounts timetables and is currently out to consultation again. It is likely that the 30 September date will be brought forward to 31 July from 2017/18 for all Councils. By acting as it is Westminster will be at the forefront of this issue and will be well placed to meet its then statutory requirements.

In order to continue to obtain the benefits noted above and to further enhance them for 2014/15 the Council will publish its annual accounts earlier again. To enable this, and to reduce the significant volume of fixed asset, grant, provision and related transactions which currently occur in periods twelve and thirteen it will hold a number of hard-closes through the year.

This initiative will be supported by an improvement plan which Corporate Finance will draft following a robust and timely review of the accounts preparation and audit process in July 2014. This will be informed by Corporate Finance's own experience as well as information provided by external audit. The improvement plan will be implemented during 2014/15 and will result in continuous programme management of the Council's accounts and ultimately the statement of accounts throughout the financial year.

Appendix 7: Management response to audit recommendations

Management has responded to the four recommendations that we have made in Appendix 1.

Recommendation 2- Review of the Code and prior year errors

Management response:

(i) As is indicated above this is the first year of accounting for the changes to NDR. Although the Council has discussed and agreed an approach which it considered reasonable, following further investigation and discussion with audit it concluded that the position recorded in its accounts should reflect the net exposure only.

(ii) The errors in the financial instruments note are primarily due to a lack of continuity in the key members of staff who prepare the accounts and its related working papers. As has been done in the last two years Corporate Finance will lead a review of the year-end process – including input from external audit – in order to agree upon an improvement plan which will be implemented during 14/15. The MIRS issue related to the Council's interpretation of how revaluation transactions should have been recognised. This issue was discussed with audit and a revised treatment agreed.

(iii) Noted. In order to monitor changes, and maintain version control Strategic Finance already have a detailed tracking process in place, it will look to further enhance in future years.

(iv) The improvement plan referred to earlier will incorporate known issues. Where new requirements are identified by the Code these will be monitored, investigated and accounting treatment agreed in a timely manner. This approach will be reinforced by proactive engagement and coordination with Tri-Borough colleagues.

Recommendation 3- Mapping of the trial balance to the financial statements

Management response:

As KPMG note this is not a new issue. The specification for managed services includes this requirement which will ensure a more automated mapping of the trial balance to the core financial statements, and is to be tested over the summer. As stated above, Strategic Finance will hold a number of hard-closes over the year as part of the planned programme of accounting improvements which will support a more robust control framework, the reconciliation and mapping of SeRCOP will be an integral part of this process.

Appendix 7: Management response to audit recommendations

Management has responded to the four recommendations that we have made in Appendix 1.

Recommendation 4- Closedown for 2014/15

Management response:

The point of the early close is only partly about the timeliness of the production of the financial information, quality and transformation are also paramount in the Council's plans. An early close does not lead to a reduction in quality rather it is the reverse and the Council is committed to the highest quality financial statements

By way of example this approach will bring about a series of improvements which will include:

- Early planning – timetable review as soon as the previous year's accounts have been closed, early and continuous identification of risks and mitigating actions and the early identification of technical requirements
- Ongoing programme of technical activity through our technical groups
- Earlier assurance gained from advance closedowns
- Early completion of work where possible eg recharges and smoothing of workloads throughout the year
- Close and regular liaison at a strategic and operational level with KPMG
- Technical expertise development – identification of key individuals with support where necessary
- Refined quality assurance processes

The Council is committed to an earlier production of its financial statements. In order to facilitate this it will embed – via regular hard-closes - more complete in-year accounting including a more timely recognition of: fixed asset additions & disposals and recognition of capital grant income, combined with more effective and ongoing management and accounting for balance sheet items within its service areas. As officers become more familiar with these transactions, understanding and accuracy will improve which will be reflected in the financial statements. More effective controls and accurate accounting will be facilitated by the new accounting system – and related disciplines e.g. no purchase order no pay - which is to be provided via the managed services agreement which goes live on 1st September 2014.

cutting through complexity™