

# The Audit Findings for Westminster City Council

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**Year ended 31 March 2017**

9 May 2017

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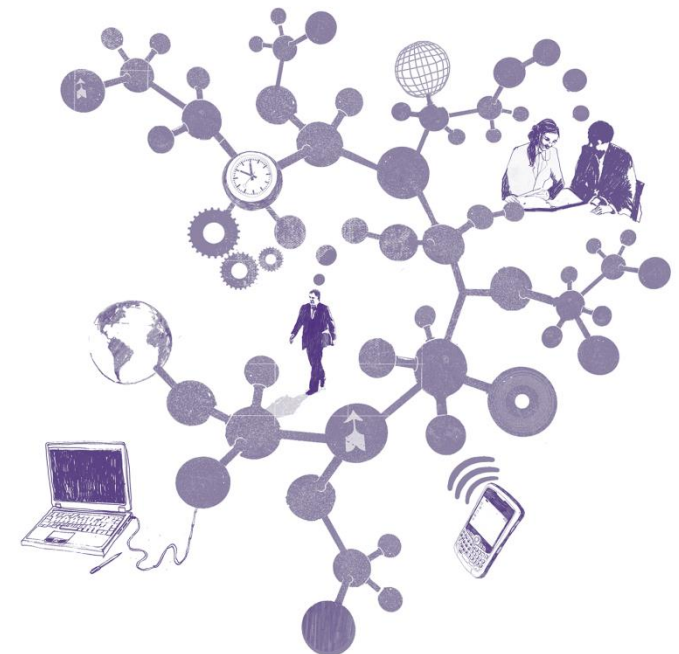
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9 May 2017

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

Partner

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# Section 1: Executive summary

**01. Executive summary**

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## Purpose of this report

This report highlights the key issues affecting the results of Westminster City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 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

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## Section 2: Audit findings

01. Executive summary

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# 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><b>The revenue cycle includes fraudulent transactions</b></p> <p>Under ISA (UK&amp;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 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"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• the culture and ethical frameworks of local authorities, including Westminster City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul>	<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><b>Management over-ride of controls</b></p> <p>Under ISA (UK&amp;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"> <li>• review of entity controls</li> <li>• review of journal entry process and selection of unusual journal entries for testing back to supporting documentation</li> <li>• review of accounting estimates, judgements and decisions made by management</li> <li>• review of unusual significant transactions.</li> </ul>	<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"> <li>• cross entity journals can be raised across the tri-borough councils.</li> </ul> <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><b>Managed Services Partnership (MSP)</b>                      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"> <li>• updated our understanding of the Council's relationship with the managed service provider during the 2016/17 year</li> <li>• reviewed the control environment around the posting of journals on the ledger and how these operate across the tri-borough</li> <li>• 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</li> </ul>	<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 &amp; 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><b>Appeals Provision for National Non-Domestic Rates (Business Rates)</b>                      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"> <li>• We have reviewed management's processes and assumptions for the calculation of the estimate</li> <li>• Testing of the calculation and agreement to supporting documentation</li> <li>• Review of the disclosures made by the Council in its financial statements</li> </ul>	<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>

# 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
<b>Employee remuneration</b>	<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"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• substantive sampling of payroll system to payslips and contractual records</li> <li>• reconciled the total pay per the payroll system to the general ledger.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
<b>Operating expenses</b>	<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"> <li>• Creditors understated or not recorded in the correct period (Operating expenses understated)</li> </ul>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• documented our understanding of processes and key controls over the transaction cycle</li> <li>• undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding</li> <li>• substantive sampling of payments throughout the year and year end creditors</li> <li>• testing for unrecorded liabilities.</li> </ul>	<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"> <li>• 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</li> <li>• 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.</li> </ul> <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><b>Valuation of property, plant and equipment</b></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"> <li>• reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• reviewed the competence, expertise and objectivity of any management experts used.</li> <li>• reviewed the instructions issued to valuation experts and the scope of their work</li> <li>• discussed with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions.</li> <li>• reviewed and challenged the information used by the valuer to ensure it was robust and consistent with our understanding.</li> <li>• performed testing of revaluations made during the year to ensure they were input correctly into the Council's asset register</li> <li>• 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.</li> </ul>	<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"> <li>• HRA valuation</li> <li>• review of the final valuation report due at the end of May 2017.</li> </ul>

## Audit findings against other risks continued

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p><b>Changes to the presentation of local authority financial statements</b></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"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>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</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<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><b>Revenue recognition</b></p>	<ul style="list-style-type: none"> <li>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.</li> <li>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"> <li>(i) The Council will comply with the conditions attached to the payments; and</li> <li>(ii) The grants or contributions will be received.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>Our testing of government grants and contributions has not identified any instances of improper revenue recognition.</li> <li>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.</li> </ul>	<p style="text-align: center;">● Green</p>
<p><b>Judgements and estimates</b></p>	<p>Critical judgements include:</p> <ul style="list-style-type: none"> <li>going concern review</li> <li>recognition of school assets</li> <li>whether group accounts should be prepared</li> <li>tri-borough working arrangements</li> </ul> <p>Key estimates include:</p> <ul style="list-style-type: none"> <li>PPE – useful lives and valuation</li> <li>pensions liability</li> <li>business rates provision</li> <li>fair value estimations</li> </ul>	<ul style="list-style-type: none"> <li>Critical judgements and estimation uncertainty are disclosed in notes 2 and 3 respectively of the financial statements</li> <li>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.</li> </ul>	<p style="text-align: center;">● Green</p>

**Assessment**

# Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
<b>Going concern</b>	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.	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.	 <b>Green</b>
<b>Other accounting policies</b>	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	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.	 <b>Green</b>

**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.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>From the work we carried out, we have not identified any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>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.</li> <li>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"> <li>Business rates provision reduction</li> <li>Valuation of property, plant and equipment and investment properties</li> <li>All information relating to the managed services has been provided to us in full.</li> </ul> </li> </ul>
5.	<b>Confirmation requests from third parties</b>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>Our review found no material omissions in the financial statements.</li> </ul>

## Other communication requirements continued


	Issue	Commentary
7.	<b>Matters on which we report by exception</b>	<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"> <li>• 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.</li> <li>• 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.</li> </ul> <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.	<b>Specified procedures for Whole of Government Accounts</b>	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold, we will examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>The WGA consolidation pack is due to be submitted in July 2017. We will audit the pack in order to meet the reporting deadline of September 2017</p>

# 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	 Amber	<ul style="list-style-type: none"> <li>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"> <li>three post-year end payments tested should have been accrued for in the 2016/17 accounts as they were over the £10,000 limit.</li> <li>one creditor and one post-year payment were included in the accounts but related to 2017/18 so should not have been.</li> </ul> </li> </ul> <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"> <li>All budget managers should follow the accruals guidance for preparing the year end position</li> </ul>

## 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"> <li>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.</li> <li>The journals balanced over the tri-borough general ledger as the system allows for journals to be posted across the three councils / pension funds.</li> </ul>	<ul style="list-style-type: none"> <li>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.</li> <li>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.</li> </ul>
2.	✓	<ul style="list-style-type: none"> <li>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.</li> </ul>	<ul style="list-style-type: none"> <li>The Council has improved its closedown arrangements and all journals were posted to the GL before the draft accounts were submitted for audit.</li> </ul>

### 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 <b>Comprehensive Income and Expenditure</b> 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		
<b>Overall impact</b>	<b>£ Nil</b>	<b>£ Nil</b>	<b>£ Nil</b>

## 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"> <li>• Over £50k table: 125,000-£129,999 from 3 to 4 and £130,000-£134,999 from 1 to 0</li> <li>• Senior employees table: the pension for one of the Executive Directors should be £34,007 not £31,338.</li> </ul>
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.

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## Section 3: Value for Money

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><b>Significant capital projects</b> 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>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><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></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.

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## Section 4: Other statutory powers and duties

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.

	<b>Issue</b>	<b>Commentary</b>
1.	<b>Public interest report</b>	<ul style="list-style-type: none"><li>• We have not identified any matters that would require a public interest report to be issued.</li></ul>
2.	<b>Written recommendations</b>	<ul style="list-style-type: none"><li>• We have not made any written recommendations that the Council is required to respond to publicly.</li></ul>
3.	<b>Application to the court for a declaration that an item of account is contrary to law</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
4.	<b>Issue of an advisory notice</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>
5.	<b>Application for judicial review</b>	<ul style="list-style-type: none"><li>• We have not used this duty.</li></ul>

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.

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## Section 5: Fees, non-audit services and independence

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
<b>Total audit fees (excluding VAT)</b>	<b>208,129</b>	<b>208,129</b>

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 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. The table below summarises all non-audit services which were identified.

### Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Teachers Pension Grant	3,500
<b>Non-audit related services:</b>	
• 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.



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## 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	✓	✓

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# Appendices

**A. Action Plan**

**B. Audit Opinion**

# 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.

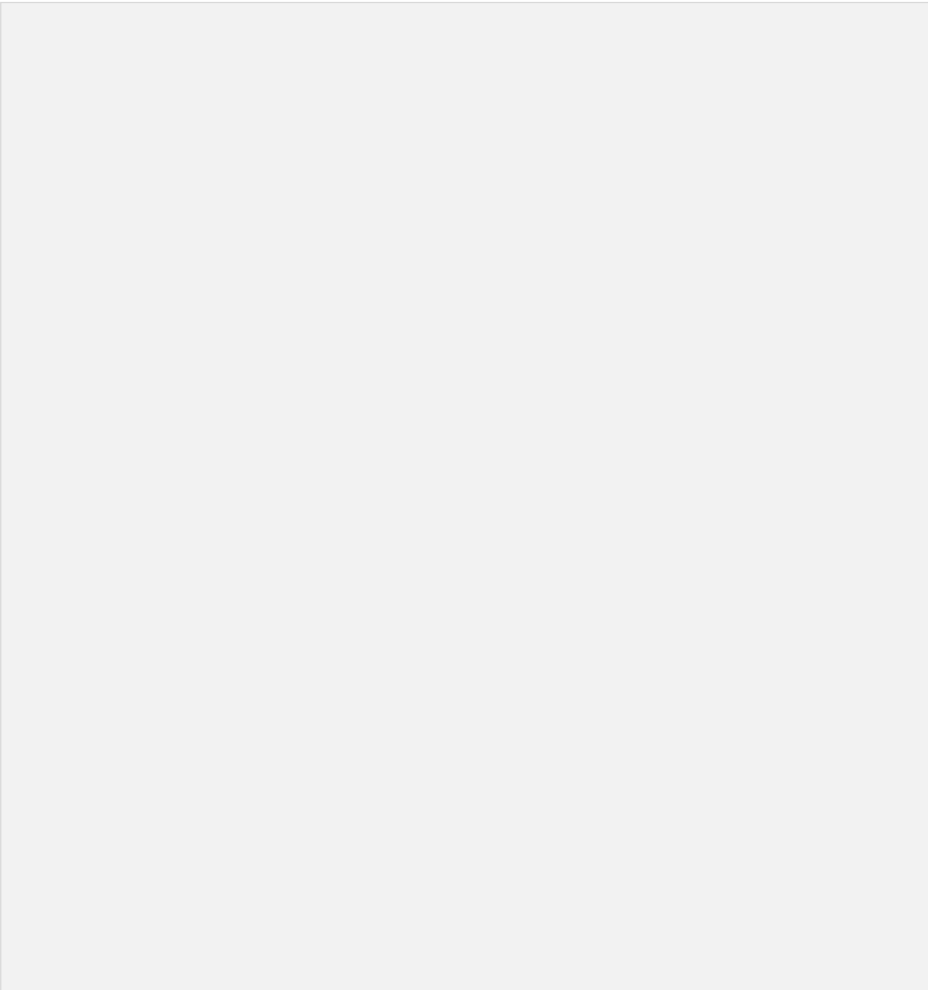
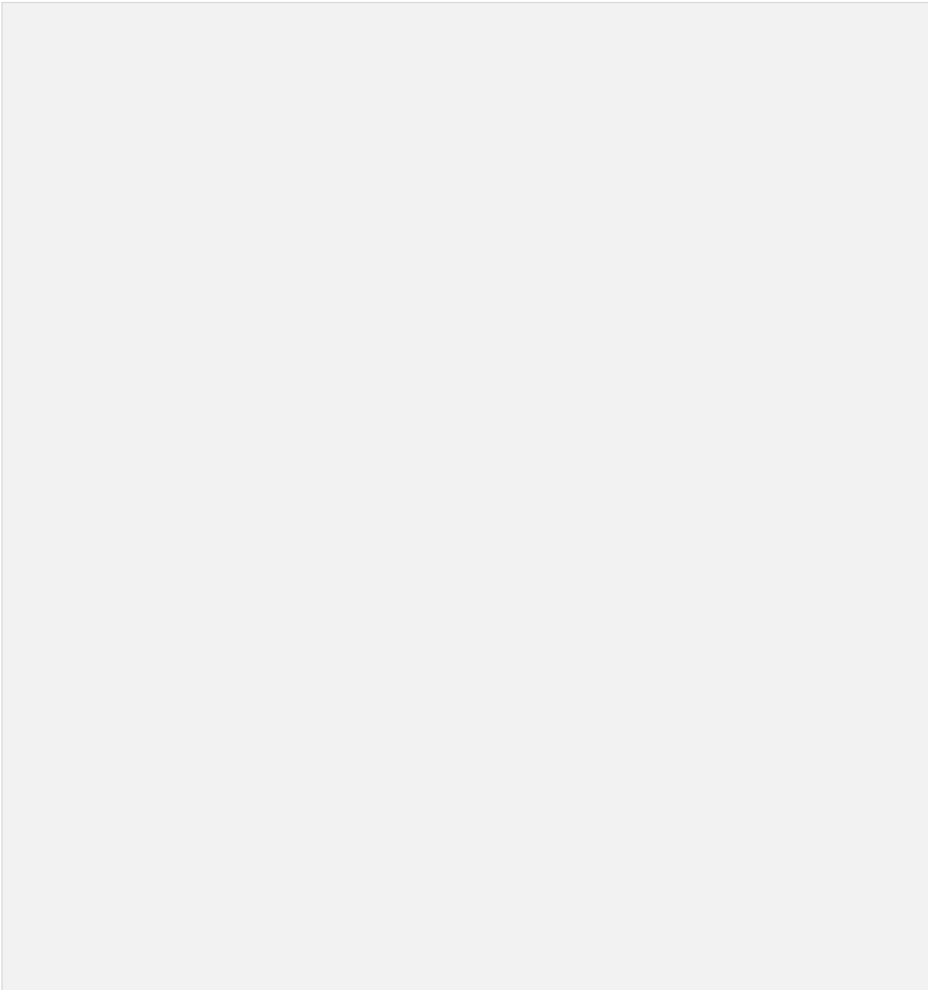
## Controls

- 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**





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