



Annual Audit Letter

Year ending 31 March 2018

Westminster City Council

July 2018



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Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Westminster City Council (the Council) and its subsidiaries (the group) for the year ended 31 March 2018.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 21 June 2018.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council and group's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council and group's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £20,103,000, which is 1.95% of the Council's gross revenue expenditure. We determined materiality for the audit of the pension fund accounts administered by the Council to be £13,360,000, which is 1% of the pension fund's net assets.
Financial Statements opinion	We gave an unqualified opinion on the group's financial statements on 21 June 2018, and an unqualified opinion on the pension fund accounts on the same date.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.

Executive Summary

Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 21 June 2018.
Certification of Grants	We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2018. We will report the results of this work to the Audit Committee in our Annual Certification Letter.
Certificate	We certify that we have completed the audit of the accounts of Westminster City Council in accordance with the requirements of the Code of Audit Practice.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
July 2018

Audit of the Accounts

Our audit approach

Materiality

In our audit of the group's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the group accounts to be £20,425,000, which is 2% of the group's gross revenue expenditure. We determined materiality for the audit of the Council's accounts to be £20,103,000, which is 1.95% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

Pension Fund Materiality

For the audit of the City of Westminster Council Pension Fund accounts, we determined materiality to be £13,360,000 million, which is 1% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts and the narrative report, annual governance statement and Annual Report published alongside the Statement of Accounts to check they are consistent with our understanding of the group and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach is based on a thorough understanding of the group's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Accounts

Significant Audit Risks for the Council

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; obtained a full listing of journal entries, identified and tested unusual and significant journal entries for appropriateness; and evaluated the rationale for any changes in accounting policies or significant unusual transactions. 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>Valuation of property, plant and equipment</p> <p>The Council revalues its land and buildings to ensure that carrying value is not materially different from fair value.</p> <p>The assets are revalued according to the rolling 5-year programme. This represents a significant estimate by management in the financial statements.</p> <p>We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; considered the competence, expertise and objectivity of any management experts used; reviewed the basis on which the valuation is carried out and challenged the key assumptions; reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. 	<p>Testing identified one instance where the Council had incorrectly taken revaluation gains on investment properties to the revaluation reserve, one instance of a property being held in the Council's records twice, and other, smaller, valuation issues. These issues had no impact on the Council's cash position.</p> <p>Our audit work did not identify any other issues in respect of the valuation of the Council's property, plant and equipment.</p>

Audit of the Accounts

Significant Audit Risks for the Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of pension fund net liability</p> <p>The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements.</p> <p>We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • gained an understanding of the basis on which the valuation is carried out; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from the Council's actuary. 	<p>The Council received an updated IAS 19 valuation report on 16 April 2018, resulting in adjustments to the financial statements.</p> <p>Our audit work did not identify any other issues in respect of the valuation of the Council's pension fund net liability.</p>
<p>Appeals Provision for National Non-Domestic Rates (Business Rates)</p> <p>The Council's provision for business rates appeals remains the largest in the country and is a highly material balance in the financial statements.</p> <p>The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> • monitored how the appeals process is affecting the Council and any planned changes in the methodology used to calculate the provision; • identified the controls put in place by management to ensure that the appeals provision is not materially misstated; • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • reviewed the assumptions made by management and the processes in calculating the estimate; • tested the calculation and its agreement to supporting documentation; and • reviewed the disclosures made by the Council in the financial statements. 	<p>Our audit work did not identify any significant issues in respect of the Council's provision for business rates appeals.</p>

Audit of the Accounts

Significant Audit Risks for the Pension Fund

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We identified management override of controls as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> • review of entity controls; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions 	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p>The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>We identified the valuation of level 3 investments as a risk requiring special audit consideration.</p>	<p>We undertook the following work:</p> <ul style="list-style-type: none"> • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment; • considered the competence, expertise and objectivity of any management experts used; and • verified the investment balances to the fund manager and custodian report 	<p>As the draft financial statements were based on 28 February 2018 balances all types of investment (Levels 1-3) were subsequently updated to reflect the valuation at 31 March 2018. This led to a total decrease of £28.6m to the Fund's reported financial position.</p> <p>Our audit work did not identify any other issues in respect of valuation of level 3 investments.</p>

Audit of the Accounts

Audit opinion

We gave an unqualified opinion on the group's financial statements on 21 June 2018, in advance of the national deadline.

Preparation of the accounts

The group presented us with draft accounts in advance of our audit visit on 3 April, significantly in advance of the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit to the Council's Audit Committee on 21 June 2018.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO . We issued an assurance statement on **29 June** 2018 which identified one minor inconsistency for the group auditor to consider between the opening balances in the Council's financial statements and those in the Data Collection Tool.

Pension fund accounts

We gave an unqualified opinion on the accounts of the City of Westminster Pension Fund on 21 June 2018.

We also reported the key issues from our audit of the pension fund accounts to the Council's Audit Committee on 21 June 2018.

Certificate of closure of the audit

We are also required to certify that we have completed the audit of the accounts of Westminster City Council in accordance with the requirements of the Code of Audit Practice.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

We carried out an initial risk assessment in January 2018, and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We continued our review of relevant documents up to the date of giving our audit report, and did not identify any significant risks requiring us to perform further work.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018.

A. Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	February 2018
Audit Findings Report	June 2018
Annual Audit Letter	June 2018

Fees

	Planned fees £	Actual fees £
Statutory group audit	185,719	185,719
Audit of the Pension Fund	21,000	21,000
2016/17 Housing Benefit Grant Certification	22,410	22,410
Objections relating to 2016/17	n/a	7,790
Total fees	229,129	236,919

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

Fees for non-audit services

Service	Fees £
Audit related services	
- Certification of the 2016/17 Teachers Pension return	3,500
- Certification of the Pooled Capital Receipts grant	9,000
Non-Audit related services	
- Subscription to CFO insights	9,500

Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

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



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