Grant Thornton

# The Audit Findings for Westminster City Council

**Year ended 31 March 2020**

**2 September 2020**

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# Headlines

This table summarises the key findings and other matters arising from the statutory audit of Westminster City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2020 for those charged with governance.

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|---|---|---|
| **Covid-19** | The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council.<br><br>The Council have been significantly impacted by Covid-19, with front-line challenges, administration of significant volumes of grants to businesses, closure of schools and car parks, and the additional challenges of reopening services under new government guidelines.<br><br>The impact on the core finance team has been more limited, with minimal changes to staff sickness rates, and remote working already being part of the normal course of business.<br><br>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020. | We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 14 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 7.<br><br>Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely throughout the audit visit, utilising screen-sharing software in order to gain sufficient assurance over the data being provided to the audit team. In addition, alternative procedures (such as the use of photographic evidence for physical verification of assets) have been used where necessary.<br><br>Management provided draft financial statements for audit during the week beginning 18 May 2020. Following initial discussions, we commenced the audit on 26 May 2020. Preliminary review of the third draft provided identified that the Council had amended a number of the 2018/19 figures from those that were audited in the previous year. These differences were investigated before our audit testing could commence. The Council subsequently reverted the prior year comparators back to the audited prior year figures, as set out in Appendix C.<br><br>We plan to hold discussions with management about the accounts preparation and audit timetable for future years. |

# Headlines

**Financial Statements**

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:

- give a true and fair view of the financial position of the group and Council and the group's and Council's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced remotely during May and is ongoing at the time of writing this report. Our findings to date are summarised on pages 6 to 20. We have identified a number of adjustments to the financial statements that have resulted in a £47.5m adjustment to the group's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete, with the exception of work on the Council's capital transactions and balances, and there are no matters of which we are aware at the time of drafting this report that would require modification of our audit opinion (the wording of which is included as Appendix E) or further material changes to the financial statements, subject to the outstanding matters listed on page 7.

All information and explanations requested from management were provided. Overall the quality of the working papers that we received was adequate, but changes are needed for a smooth audit process, especially in relation to balance sheet items. As in previous years, there was a significant degree of 'back and forth' between the audit team and the Council to enable us to complete our work. We have discussed this with management, and will work with the finance team to adapt their working papers for future years.

Payroll information was not available in the format we required, which led to delays in testing this area. This issue also caused delays in the previous year's audit, but management have confirmed that this will be readily available in future years.

We have raised a significant number of queries in relation to the Council's capital transactions and valuations during the audit. Some of these were due to additional audit processes this year, however many were a result of errors made by the Council in the processing of capital transactions and the preparation of the financial statements. We will continue to work with the Council as they address our recommendations in this area.

There have been a number of adjustments made across the financial statements, including significant adjustments made to the Council's capital transactions and property valuations. We consider that many of the adjustments identified this year were basic errors which had not been identified and corrected by management's review of the accounts prior to their submission for audit. We would recommend a strengthening of this process to identify and correct such misstatements and enhance the quality of the financial statements submitted for audit in future years. Audit adjustments identified to date are detailed in Appendix C.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.

# Headlines

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|---|---|---|
| **Financial Statements (continued)** | | Our anticipated audit report opinion, subject to resolving outstanding matters in respect of asset valuations, will be unqualified, but will include Emphasis of Matter paragraphs highlighting the uncertainties that the Council has disclosed in Note 3 to the financial statements in relation to property valuations and the valuation of the property and infrastructure assets included within the net pension liability. |
| **Value for Money arrangements** | Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion'). | We have completed our risk based review of the Council's value for money arrangements. We have concluded that Westminster City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.<br>We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.<br>We therefore anticipate issuing an unqualified Value for Money Conclusion, as detailed in Appendix E.<br>Our findings are summarised on pages 21 to 30. |
| **Statutory duties** | The Local Audit and Accountability Act 2014 ('the Act') also requires us to:<br>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and<br>• To certify the closure of the audit. | We have not exercised any of our additional statutory powers or duties.<br>We have not received any questions or objections in relation to the Council's financial statements.<br>We have completed the majority of work under the Code, however we do not expect to be able to certify the completion of the audit when we give our audit opinion as we will not have completed the following:<br>• procedures required on the Council's Whole of Government Accounts submission;<br>• checks of the consistency of the pension fund financial statements included in the Pension Fund Annual Report with those included in the Annual Accounts. |

**Acknowledgements**

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

# Audit approach

### Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management ahead of presentation to the Audit Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

### Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group's and Council's internal controls environment, including its IT systems and controls.
- An evaluation of the components of the group based on a measure of materiality and considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component. This assessment was then used to determine the planned audit response. From this evaluation we determined that specified audit procedures were required for the following balances:
  - Property, Plant and Equipment and Grant Revenues within Westminster Community Homes; and
  - Inventories in Westminster Housing Investments Group, and the intra-group loan arrangement between the Group and the Council. This work was a new requirement this year due to the size of the balances in the new subsidiary group.

  These procedures were completed by the audit team.
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 14 April 2020, to reflect our response to the Covid-19 pandemic. In this Addendum, we detailed additional significant risks in relation to Covid-19 for the financial statements and the VFM conclusion.

### Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan and addendum:

| | Group Amount | Council Amount |
|---|---|---|
| Materiality for the financial statements | £15,400k | £15,000k |
| Performance materiality | £10,000k | £9,750k |
| Trivial matters | £770k | £750k |
| Materiality for disclosures relating to remuneration of senior officers, due to their sensitive nature | £100k | £100k |

# Audit approach

### Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Performance Committee meeting, as detailed in Appendix E. These outstanding items include:

- completion of our substantive testing of the Council's investment property and operational property valuations, including agreement of key inputs and changes in year to supporting documentation held by the Council;
- consideration of the estimates made by the Council and their valuer in relation to the valuation of HRA dwellings;
- consideration of the treatment of the revaluation of a significant asset that was transferred out of assets under construction and into operational land and buildings during the 2019/20 financial year;
- the impact of the Godwin judgement on LGPS is also currently being considered by the NAO and their auditor expert PWC;
- receipt of outstanding third party confirmations for one investment balance;
- receipt and review of supporting evidence for the s75 disclosure note;
- resolution of queries relating to technical accounting papers regarding the WHIL group;
- receipt and review of supporting evidence for adjustments made in relation to the Council's Community Infrastructure Levy;
- review of the updated financial statements to ensure that expected adjustments have been processed, and that they are internally consistent;
- final quality checks and senior personnel reviews of the audit work performed;
- receipt of management's signed representation letter; and
- receipt and review of the final set of signed financial statements.

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Covid – 19**<br>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected current circumstances would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:<br>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;<br>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;<br>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and<br>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.<br>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• worked with management to understand the implications the response to the Covid-19 pandemic has had on the organisation's ability to prepare the financial statements and update financial forecasts, and assessed the implications for our materiality calculations;<br>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;<br>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;<br>• evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;<br>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and<br>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.<br>The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 3 to the financial statements (although the specific wording has been added in relation to investment properties as a result of audit challenge).<br>The Council has also included disclosures in Note 3 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position.<br>We will refer to these material valuation uncertainties in our audit report.<br>We will require the Council to give consideration to updating its disclosure of post balance sheet events, to include information relating to funding received since 1 April 2020 and other significant events.<br>Our work to address the points above is substantially complete, and we have not identified any other issues or concerns to report. |

# Significant audit risks

| Risks identified in our Audit Plan | Auditor commentary |
| --- | --- |
| **Fraudulent revenue and expenditure recognition**<br>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.<br>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. | Having considered the risk factors set out in ISA240 and the nature of the revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:<br>• There is little incentive to manipulate revenue recognition.<br>• Opportunities to manipulate revenue recognition are very limited.<br>• The culture and ethical frameworks of local authorities, including the Council and Fund, mean that all forms of fraud are seen as unacceptable.<br>**Therefore we do not consider this to be a significant risk for Westminster City Council.**<br>We have however:<br>• evaluated the Council's accounting policy for recognition of revenues for appropriateness;<br>• performed substantive testing on material revenue streams; and<br>• reviewed unusual significant transactions.<br>Our audit work has not identified any issues in respect of improper revenue recognition. |
| **Management override of controls**<br>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.<br>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.<br>The main mechanism through which this could occur is through the posting of manual journals amending the reported financial performance. We therefore review the controls established relating to manual journals, including those for authorisation of manual journals. | We have:<br>• evaluated the design effectiveness of management controls over journals;<br>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;<br>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;<br>• tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration;<br>• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and<br>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.<br>Our audit work has not identified any issues in respect of management override of controls. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
| --- | --- |
| **Valuation of property, plant and equipment being materially misstated**<br>The Council revalues land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements (£2.7bn).<br>Management have engaged the services of an expert valuer to estimate the current and fair values as at 31 March 2020.<br>We identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;<br>• evaluated the competence, capabilities and objectivity of the valuation expert;<br>• written to the valuer to confirm the basis on which the valuations were carried out;<br>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;<br>• tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;<br>• evaluated the assumptions made by management for any assets not revalued at 31 March 2020, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.<br>Our audit work identified a number of issues in relation to the Council's record keeping and transactional processing (including errors in the treatment of revaluations, issues with the splitting of assets between land and building elements, incorrect inputs into property valuations, including let / unlet statuses and ownership shares, and others) as well as adjustments relating to the year-end valuation. Several of the issues that we have identified have resulted in significant amendments to the financial statements, as set out in Appendix C, and recommendations that have been raised as a result of our work are included in Appendix A. We would expect that many of the adjustments that we have found should have been identified and corrected as part of management's internal quality control processes.<br>The Council's valuer has prepared their valuations as at 31 March 2020. In their reports, they have confirmed that as a result of the Covid-19 pandemic and the subsequent lockdown and impact on market activity, less certainty – and a higher degree of caution – should be attached to their valuations than would normally be the case. Their valuations are reported on the basis of 'material valuation uncertainty'. The Council have reflected this uncertainty in Note 3 to the financial statements (although the specific wording has been added in relation to investment properties as a result of audit challenge). We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.<br>We will refer to these material valuation uncertainties in our audit report as an emphasis of matter.<br>At the time of writing this report, our detailed work on the Council's valuations is ongoing. There are significant queries that we are still discussing with the Council's valuer in relation to the indexation approach used. In addition, we will complete detailed testing to agree the key inputs for a sample of valuations to supporting evidence, and consider the movements year-on-year. This work is not complete, and may result in further findings. |

# Other audit risks

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| **Valuation of pension fund net liability**<br>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.<br>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£625 million in the balance sheet) and the sensitivity of the estimate to changes in key assumptions.<br>We identified valuation of the pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement. | We have:<br>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;<br>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;<br>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;<br>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;<br>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and<br>• completed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.<br>The Council has included disclosures in Note 3 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position.<br>We will refer to this material valuation uncertainties in our audit report as an emphasis of matter.<br>At the time of writing this report, the impact of the Godwin judgement on LGPS is being considered by the NAO and their auditor expert PWC, and this may result in further audit queries.<br>Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability. |
| **Appeals Provision for National Non-Domestic Rates (Business Rates)**<br>The Council's provision for business rates appeals remains the largest in the country and is a highly material balance in the financial statements.<br>The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision. | We have undertaken the following work in relation to this risk:<br>• monitored how the appeals process is affecting the Council and considered any changes in the methodology used to calculate the provision;<br>• identified the controls put in place by management to ensure that the appeals provision is not materially misstated, and assessed whether these controls were implemented as expected;<br>• reviewed the assumptions made by management and the processes used in calculating the estimate;<br>• tested the Council's calculation and agreed it to relevant supporting documentation; and<br>• reviewed the disclosures made by the Council in the financial statements.<br>Our work has not identified any significant issues with the calculation of the appeals provision balance. |

# Group audit

| Risks identified in our Audit Plan | Auditor commentary |
|---|---|
| Along with the full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements. | We have reperformed both the group balance sheet and group CIES consolidations, and completed targeted audit procedures on material balances and consolidation adjustments. In addition we have reviewed the group cash flow statement and group MIRS for consistency with other work performed.<br>We have noted a number of adjustments and amendments, which are set out in Appendix C.<br>Our work on the consolidation process has not identified any other issues. |

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
| --- | --- | --- | --- |
| **Council Dwellings**<br>Draft: £1,551m<br>Final: TBC | The Council owns 12,000 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.<br><br>The Council has engaged Sanderson Weatherall to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council Housing was £1,550m, a net increase of £82m from 2018/19 (£1,468m).<br><br>Previously, the Council have instructed their valuer to provide valuations as at 1 April each year, and management have then considered the potential change over the course of the year to determine whether there has been a material change in the total value of these properties. For 2019/20, the Council changed this approach and instructed the valuer to provide valuations as at 31 March 2020, based on indices.<br><br>Management and their valuer have considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's dwellings.<br><br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3. | • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year, other than the change in valuation date to 31 March, instead of 1 April.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 3 in our audit report.<br>• We have considered the indices that the valuer has used in performing the valuation and have noted that the actual indices for February and March 2020 were significantly different to those assumed by the valuer in performing the valuation (extrapolated based on data from earlier in the year). Our work in this area is ongoing, we are actively engaging with the Council's valuer on these matters. | ● (TBC) |

**Assessment**

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Other Land and Buildings (GF & HRA)**<br>Draft: £676m<br>Final: TBC | The Council has engaged Sanderson Weatherall to complete the valuation of these properties. Each year, approximately 20% of assets are subject to a full, formal valuation process on a five yearly cyclical basis. The other 80% are subject to a formal desktop valuation to ensure that the values are updated in line with market movements. There are therefore no properties that are not valued at the 31 March each year.<br><br>Other land and buildings revalued in 2019/20 comprised £58m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.<br><br>The remainder of other land and buildings revalued in 2019/20 (£36m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end.<br><br>The total year end valuation of Other land and buildings was £676m, a net increase of £56m from 2018/19 (£620m).<br><br>Management and their valuer have taken into account available market data, and considered a range of available indices, and have used this to determine an appropriate estimate for the indexation of the Council's land and buildings.<br><br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosure of this in Note 3. | • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. At the time of writing this report, we are still discussing the appropriateness of the indices used by the Council's valuer with the valuer.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 3 in our audit report.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have not noted any non-trivial issues.<br>• We have noted issues with the valuation approach taken to a number of residential assets in the Council's portfolio, which were included as 'non-residential' in the desktop valuation process. This has resulted in an adjustment to the financial statements of £4.7m, as detailed in Appendix C.<br>• Adjustments have been agreed as a result of our findings, as detailed in Appendix C.<br><br>Our work in this area is ongoing, we are actively engaging with the Council's valuer on these matters. | ● (grey)<br>(TBC) |

**Assessment**

- ● (red) We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● (amber) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptionswe consider optimistic
- ● (yellow) We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● (green) We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
| --- | --- | --- | --- |
| **Investment Property**<br>Draft: £500m<br>Final: TBC | The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.<br>The Council has engaged Sanderson Weatherall to complete the valuation of these properties. The year end valuation of the Council's investment property was £500m, a net increase/decrease of £27m from 2018/19 (£473m).<br>Management and their valuer have taken into account available market data at 31 March 2020.<br>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's Investment Property at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3, which have been clarified as a result of audit challenge. | • We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.<br>• There have been no changes to the valuation method this year.<br>• We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert.<br>• Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 3 in our audit report.<br>• We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have challenged the appropriateness of the classification as investment for a sample of properties. We have not identified any issues in the current year in relation to assets being misclassified as Investment Properties, but have identified material assets that have been misclassified between General Fund and HRA in Note 21.<br>• At the time of writing this report, we are in the process of testing supporting information for the detailed calculations of property valuations provided by the Council's valuers in order to perform testing to confirm that the key inputs into the valuations are accurate. | ● (grey)<br>(TBC) |

**Assessment**

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Net pension liability**<br>Draft: £625m<br>Final: £625m | Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £94m net actuarial gain during 2019/20.<br>The Council's net pension liability at 31 March 2020 is £625m (PY £702m) comprising obligations under both the Westminster City Council Pension Fund Local Government pension scheme and the London Pensions Fund Authority scheme.<br>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.<br>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.<br>The Council has included disclosures in Note 3 in relation to the ongoing impact of the Covid-19 pandemic, which has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value. Professional valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment. As such values have been rolled over from the end of February with an adjustment and may be inaccurate to the true 31 March 2020 position. | • We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.<br>• We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Westminster City Council Pension Fund valuation: | (green) |

| Assumption | Actuary Value | PwC expected range | Assessment |
|---|---|---|---|
| Discount rate | 2.35% | 2.35% | ● |
| Pension increase rate | 1.90% | 1.85% - 1.95% | ● |
| Salary growth | 2.90% | 2.85% –2.95% scheme-specific | ● |
| Life expectancy – Males currently aged 45 and 65 | 45: 23.2<br>65: 21.8 | 22.8 – 24.7<br>21.4 – 23.3 | ● |
| Life expectancy – Females currently aged 45 and 65 | 45: 25.8<br>65: 24.2 | 25.2 – 26.2<br>23.7 – 24.7 | ● |

- No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.
- There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.
- We have confirmed that the Council's share of the pension scheme assets is in line with expectations.
- Disclosure of the estimate in the financial statements is considered adequate. We will refer to the uncertainties disclosed in Note 3 in our audit report.

At the time of writing this report, the impact of the Godwin judgement on LGPS is also currently being considered by the NAO and their auditor expert PWC, which may lead to further audit queries.

**Assessment**

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key estimates and judgements

| Accounting area | Summary of management's policy | Audit Comments | Assessment |
|---|---|---|---|
| **Provisions for NNDR appeals**<br><br>Draft: £60m<br><br>Final: £60m | The Council are responsible for repaying a proportion of successful rateable value appeals.<br><br>Due to the London NNDR Pooling arrangement, the Council's share of the liability has decreased from 64% to 48% for 2019/20.<br><br>In previous years, management have used historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.<br><br>In 2019/20, management have utilised an expert - Analyse Local – to calculate their provision at 31 March. This, along with the reduction in the Council's share of the obligations, has led to a reduction in the provision to £60m in 2019/20 (£126m in 2018/19). | • We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.<br>• We have considered the approach taken by the Council's experts to determine the provision, and it is in line with that used by other bodies in the sector.<br>• Disclosure of the estimate in the financial statements is considered adequate.<br>• There has been a change in the calculation method this year, due to the introduction of the use of an expert. We have considered the new approach, and the calculation performed by the expert, and have not identified any issues. | (green) |
| **Other accruals and estimates** | The Council continues to apply estimates and judgements in a number of areas, such as:<br>• accruals of income and expenditure;<br>• recognition of school assets; and<br>• the preparation of group accounts. | • The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting.<br>• Disclosure of the estimates in the financial statements is considered adequate.<br>• As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail.<br>• We have found no material misstatements in the financial statements relating to these balances. | (green) |

**Assessment**

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process and key assumptions to be reasonable

# Significant findings – going concern

### Our responsibility

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) 570).

### Going concern material uncertainty disclosures

It has been a challenging year due to the Covid-19 pandemic and the impact of this has been administration of grants to businesses, closure of schools and car parks, with additional challenges of reopening services under new government guidelines; and the need to free up capacity of teams to assist with additional workloads caused by the pandemic in addition to normal responsibilities. In common with all Local Authorities, the Council is facing significant challenges, but has reported a small surplus for 2019/20. Management have undertaken an analysis of the potential financial implications of Covid-19 together with additional funding being provided. It may take a couple of years before the Council can fund its gross service expenditure without the use of its reserves. The Council will therefore require further use of its financial reserves to pay its expenses in 2020/21. However, the Council has £63m general fund balance plus £292m earmarked general fund reserves and £2m schools reserves so is in a relatively strong financial position to absorb the immediate costs and loss of income caused by the pandemic.

| Going concern commentary | Auditor commentary |
|---|---|
| **Management's assessment process**<br>▪ Cash flow periods<br>▪ Judgements and assumptions taken | Management has undertaken their own assessment of going concern, taking into account Paragraph 2.1.2.9 of the Code of Practice on Local Authority Accounting states that "*An authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future*".<br>Management have also considered the following factors:<br>• The financial impact of Covid-19. The Council has estimated the financial impact of Covid19 to be in the region of £50-60m excluding government support. This consists of increased costs of dealing with Covid-19 of £6-10m and loss of income between £40-50m. Further support has been announced on 2 July 2020 to assist all Local Authorities for the loss of income from fees and charges.<br>• The Council's anticipated deficit for 2020-21 and the level of reserves that can be utilised to offset the deficit.<br>• The Council's cash flow projections through to September 2021.<br>• The current budget monitoring report for 2020-21.<br>• The Medium Term Financial Plan that has been updated to model the impact of Covid-19 |
| **Work performed** | We have viewed the Council's financial assessment of the impact of Covid-19, cash flow forecasts, future financial plans and the Council's level of reserves. |
| **Concluding comments** | We are satisfied that the Council's financial statements are appropriately prepared on a going concern basis, and that no further disclosure is required. |

# Other matters for communication

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 | Auditor commentary |
|---|---|
| **Matters in relation to fraud** | We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. |
| **Matters in relation to related parties** | We are not aware of any related parties or related party transactions which have not been disclosed.<br>Our audit work identified that the Council had not received declarations from all individuals in relation to the 2019/20 year. We are satisfied that this has not resulted in a material omission from the financial statements.<br>During our procedures we also performed a search for interests of key individuals using Companies House, and identified 7 members who had interests that had not been declared to the Council. Management have confirmed there were no transactions to disclose regarding these companies and therefore no misstatement to the accounts. Only one company is in Westminster and it is currently dormant.<br>We consider these to be weaknesses in the arrangements in place, and have raised a action points in Appendix A. |
| **Matters in relation to laws and regulations** | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. |
| **Written representations** | A letter of representation has been requested from the Council, including specific representations in respect of the Group, the wording of which is included in Appendix F. |
| **Confirmation requests from third parties** | We requested from management permission to send a confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however at the time of writing this report, one request was outstanding from Goldman Sachs. |
| **Disclosures** | We have requested that additional disclosures be added to the financial statements in relation to the HRA in order to comply with the requirements of the Code, including disclosure of: a breakdown of the HRA PPE balance; detail of the depreciation charged to the HRA in year; and capital expenditure and financing, including REFCUS. Our review found no other material disclosure omissions in the financial statements. Amendments made are included in Appendix C. |
| **Audit evidence and explanations and significant difficulties** | Management provided us with three versions of the draft financial statements for audit between 18 and 20 May 2020. Preliminary review of the third draft provided identified that the LA had amended a number of the 2018/19 figures from those that were audited in the previous year. When we challenged management on this:<br>• some differences were confirmed to be immaterial changes, and as such these should have been processed during the 2019/20 year, and have been amended;<br>• some differences were due to the finance team picking up incorrect versions of working papers when entering the prior year figures into the financial statements document, and these have been rectified.<br>All information and explanations requested from management were provided. Overall the quality of the working papers that we received was adequate, but further improvements are needed for a smooth audit process, especially in relation to balance sheet working papers. There were a number of adjustments required to the financial statements, as detailed in Appendix C. |

# Other responsibilities under the Code

| Issue | Commentary |
|---|---|
| **Other information** | We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.<br>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect. |
| **Matters on which we report by exception** | We are required to report on a number of matters by exception in a numbers of areas:<br>• 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 other information of which we are aware from our audit<br>• If we have applied any of our statutory powers or duties<br>We have nothing to report on these matters. |
| **Specified procedures for Whole of Government Accounts** | We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.<br>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.<br>This work is not complete at the time of writing this report. |
| **Certification of the closure of the audit** | We have completed the majority of work under the Code, however we do not expect to be able to certify the completion of the audit when we give our audit opinion as we will not have completed the following:<br>• procedures required on the Council's Whole of Government Accounts submission;<br>• checks of the consistency of the pension fund financial statements included in the Pension Fund Annual Report with those included in the Annual Accounts.<br>This is confirmed in the proposed wording of our audit report, as detailed in Appendix E. |

# Value for Money

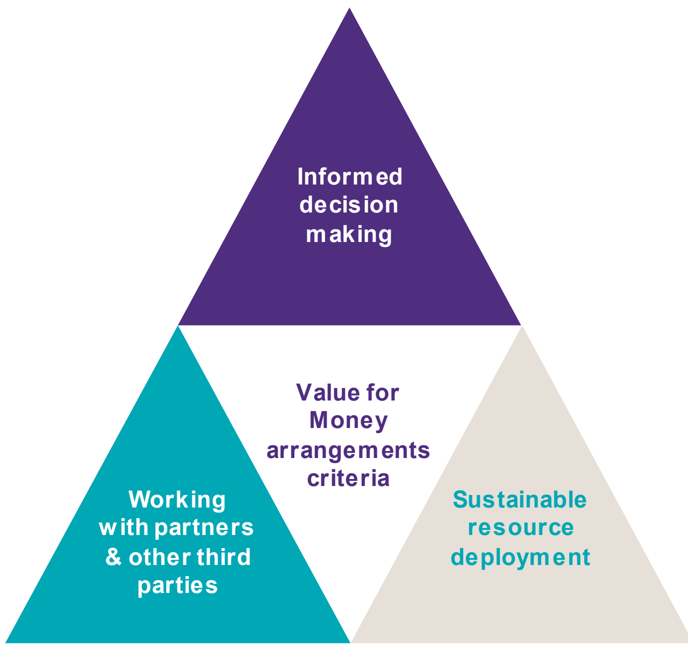
### Background to our VFM approach

We are required to satisfy ourselves that the Council has made 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. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. 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."*

This is supported by three sub-criteria, as set out below:




### Risk assessment

We carried out an initial risk assessment in January 2020 and identified one significant risk in respect of the Council's arrangements for managing capital projects using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

Our risk assessment is a dynamic process and we have had regard to new information which emerged since we issued our Audit Plan. We have identified the financial impact on the Council of Covid-19 as an additional risk.

We carried out further work only in respect of the significant risks 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.

### Our work

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 risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The appropriateness of your financial arrangements for assessing and responding to the impact of Covid-19.
- The appropriateness of your arrangements over your capital programme.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 22 to 30.

### Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

# Value for Money

### Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A.

### Significant difficulties in undertaking our work

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

### Significant matters discussed with management

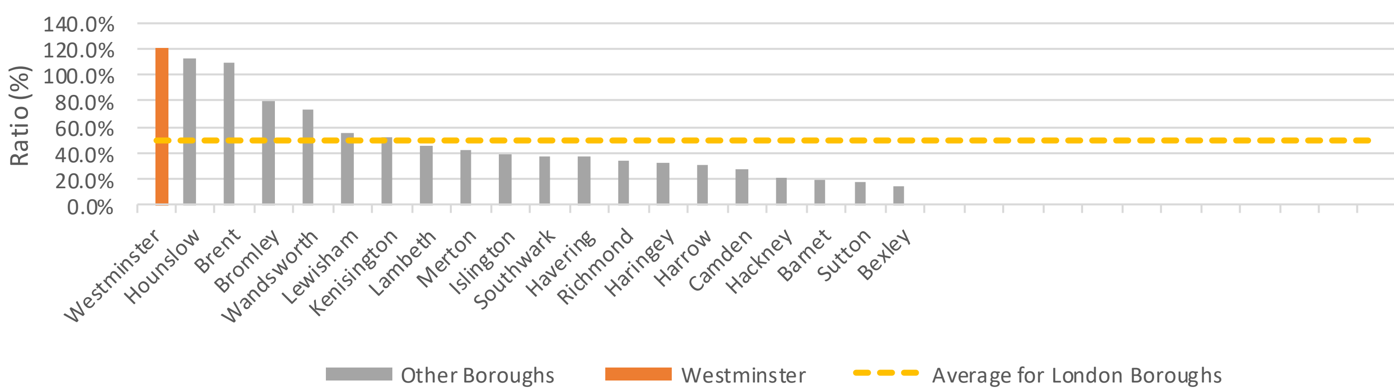
There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

## Key findings – financial impact of Covid-19

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 as per our Audit Plan | Findings and conclusion |
|---|---|
| Covid-19 will have a significant impact on the Council's commercial income particularly car parking, rental income, fees and charges and collections of Business Rates and Council tax. The Council will need to model the impact of Codiv-19 on their 2020/2021 financial position and to decide on appropriate actions to mitigate any significant financial gaps that arise. | **Summary findings**<br>• The Council has delivered a £0.53m underspend in 2019-20.The Council is undertaking scenario planning and closely monitoring the financial impact of Covid-19. Officers recognise that this is a complex, evolving and iterative process.<br>• The Council are currently forecasting increased Covid-19 expenditure of £8-10m and losses of income in the region of £45 to £50m for 2020-21.<br>• The Council has revised its Medium Term Financial Plan in July 2020 to take into consideration the current impact of Covid-19. The updated Medium Term Financial Plan identifies a budget gap for 2021/22 of £29.2m and £91.4m over the three-year period.<br>• The Council recognises that it will need to identify and implement savings plans to plug the gaps in the Medium Term Financial Plan. In prior years the Council has sought to generate increased income to address budget gaps, but this is strategy is unlikely to be successful in the current economic climate.<br>• The Council will need to focus efforts on identifying and delivering savings options that are resilient and create long term financial sustainability in a post Covid-19 world. In undertaking this exercise, the Council will need to review the new ways of working implemented during the pandemic, retaining initiatives that increased productivity, reduced costs and led to no deterioration in service delivery.<br>• The Council recognises that the financial climate is hugely uncertain and that the macro-economic risks facing the UK economy will have particular risks for a Council which hosts national global business and leisure facilities.<br><br>The Council has historically been successful in managing its financial position. Following the financial crisis of 2008 and subsequent years of reduced government funding and with the Council's reliance on commercial income and fees and charges, the Council has sought to build up its reserves to ensure it remains financially resilient to economic shocks. As at 31 March 2020 the Council holds General Fund reserves of £63.3m and a further £291.7m in earmarked General Fund reserves. The Council's reserve position is healthy compared to other London Boroughs and this remains the case when the size of the Council is taken into consideration. This is highlighted by the graph below. |

General fund and non-schools earmarked general fund reserves as a percentage of net service revenue expenditure (%)



| Significant risk as per our Audit Plan | Findings and conclusion |
|---|---|
| Continued risk from the previous page | In 2019/20 the Council reported a net General Fund revenue underspend position of £0.530m against an approved budget of £181.993m. The majority of the costs associated with Covid-19 and loss of income have impacted on the Council post 31 March 2020. The underspend of £0.53m in 2019-20 was £2.1m less than the anticipated surplus outturn of £2.6m prior to the onset of the Pandemic.<br><br>However, the impact of the pandemic on the Council's finances will be felt during 2020/21.The Government's lockdown, announced on 23 March 2020, has meant that many of the businesses at the heart of the West End have been forced to close – significantly impacting on the local economy, which in turn impacts on the Council's commercial income. Furthermore, the Council has had to put considerable resources into ensuring that rough sleepers are safe during this period and that the most vulnerable are cared for.<br><br>The Council is expecting substantial losses across many of its largest streams of commercial income. These include parking, commercial waste, licensing fees, registrars and planning fees. As with any recession, investment income is anticipated to reduce which will create further pressures on the Council's finances. On the expenditure front some of the key areas of additional pressure will include accommodation and support for rough sleepers, temporary mortuary costs and additional costs in supporting the most vulnerable adults and children.<br><br>The Council continues to closely monitor the financial impact of Covid-19. The 2020/21 net budget is £180m which is inclusive of £18.9m of savings that were identified for the year. The latest budget monitoring report as at the end of May 2020 detailed the Council's financial position and compared this to the amount of additional government funding received so far. As at the end of May 2020 the Council had a year date cost variance of £17.5m which compromised of income losses of £15.2m and additional expenditure of £2.3m. The Council has received additional core funding from the government in two tranches so far, which amounts to £16.4m. This is close to covering the net costs to date. The Council will also receive a third tranche of government support which is likely to be allocated on a similar basis to the first tranches. In addition, the Council will be entitled to reimbursement for some of the loss of income. The impact of these recent announcements (reflected on the next page) will need to be worked through.<br><br>The Council estimates that the 2020-21 full year impact, is likely to be in the region of £50-60m excluding government support, however this is based upon a set of assumptions which are likely to change including how long the recovery is likely to take, how much of the lost income will be recovered and how much of the pre covid-19 income will return in time. There is also the potential for further surges in the virus and potential lockdowns. The Council is looking at measures to reduce spending on non-essential functions where possible in order to reduce this impact over time.<br><br>On 2 July 2020 the government announced further funding and financial support for local authorities. These were:<br>• £500m of unringfenced grant funding for local authorities across England. The funding is similar to the first two tranches of government support and is likely to focus on additional financial burdens that have arisen from the pandemic.<br>• A new scheme to help reimburse local authorities for lost income during the pandemic and boost cashflow for local authorities. The scheme to reimburse local authorities for income losses is predicated on Councils covering the first 5% of income losses from sales, fees and charges and the government will reimburse councils for 75% thereafter.<br>• Any preceptor deficits on a council's Collection Fund can be paid over three years rather than all in one year. This will provide a cashflow boost to many Councils.<br><br>The Council are in the process of working through the implications of these announcements. These are not included within the analysis of the impact detailed in the following paragraphs. The potential annual impact of the pandemic as at early July is an increase in expenditure of between £8 to10m and losses of Income of £45-£50m.<br><br>The most significant impact of the pandemic on the Council's finances is resulting from income reductions. Parking has been particularly hard hit with the Council generating just £7m in parking income at the end of May compared with £16m at the same point last year. It is estimated that the full year impact of parking losses could be approximately £20-22m. This range is based on demand gradually returning back to pre-Covid-19 or close to pre-Covid-19 levels during the year. |

| Significant risk as per our Audit Plan | Findings and conclusion |
|---|---|
| Continued risk from the previous page. | Due to the lockdown measures many of the Council's commercial waste customers have had to close, which has inevitably led toa reduction in income. In comparison to this time last year, the Council has generated £2m less income, and it is estimated that the full year variance will be over £9m. This forecast is likely to move significantly as there are many uncertainties on how businesses will recover due to Covid-19. Sales of bag products will increase once businesses re-open but will be very dependent on how well these businesses trade as lockdown eases. Forecasts include an assumption for some further recovery to occur, but it is unlikely to return to pre-Covid-19 monthly income levels this financial year with social distancing requirements and concerns about travelling on public transport into the City.<br><br>It is estimated that planning income will be approximately £3.5m below budget. This is based on reduced planning applications and developments due to the economic impact of the pandemic. In comparison to this point last year planning income is already 50% less and it is currently assumed that this level will broadly continue for the rest of the financial year which is realistic. The other significant area is the loss of promotons filming and events across the City with no income received thus far and an anticipated year shortfall of £3.5m.<br><br>The impact on expenditure is less severe than the loss of income, but the Council are estimating increased costs to the rough sleepers budget of £1.2m. The additional costs to Social Care are estimated at a further £1.2m driven by additional spend on PPE, £0.5m, support for the Homecare provider market £0.3m, increased staffing £0.2m. The Council is estimating a £3m overspend on temporary accommodation with demand that is likely to come through as lockdown eases and the full impact of the economic situation starts to come through.<br><br>Increasing levels of unemployment and reducing tax revenues associated with global recession will affect collection rates forCouncil Tax and Non-domestic rates as individuals and businesses experience the financial effects of the pandemic, resulting in further pressureon authorities' cash flows and finances. The collection of council tax has been severely impacted by the Covid-19 outbreak as residents face an uncertain financial situation. The Council's decision to temporarily suspend recovery action for unpaid bills, to help residents, has reduced cash receipts by £3m in the year to date. May's collection rate at 26.40% is 4.10% lower than the same month last year. The cessation of recovery action against council tax payers that have late or unpaid bills includes the suspension of enforcement agency work and of the despatch of summonses since April. These measures have therefore had a negative effect on income collected to date. There will be a programme of initiatives implemented to get collection back on track once the current restrictions are lifted.<br><br>The HRA is forecasting a 2020-21 overspend of £4.7m. Approximately £3.9m of this overspend is due to additional costs and reduced income as a result of the impact of Covid-19. The majority of this is due to concessions given to key risk commercial tenants, an assumed increase in bad debts and reduced future rent generated from commercial premises, garages, sheds and car parking income. It also includes a sum for tenants rent as it is anticipated there will be an increase in arrears and collection rates may be affected in the short term<br><br>The Council has undertaken an update of the medium-term financial plan reported to Full Council in March 2020. At that time a total budget gap of £95.6m was identified, with savings of £32.1m, which left a remaining budget gap for 2021/22 and 2022/23 of £63.5m. The update in July 2020 includes adjustments to previous assumptions to model the potential impact of Covid-19 as well as expanding the time horizon of the plan by a further year to 2023/24.<br><br>The updated Medium Term Financial Plan identifies a budget gap for 2021/22 of £29.2m and £91.4m over the three-year period. Over the three-year period the budget gap has increased by £28.0m. The main reasons for this are:<br>• Assumed government funding – favourable reduction of £18m, largely from the Fair Funding Review being delayed.<br>• As outlined in previous pages the most significant impact of the pandemic on the Council finances is from the reduction on income from sales, fees and charges mainly related to the significantly reduced economic activity. Current year forecasts are still very uncertain, however, it is expected that conditions and therefore income will not return to pre-Covid levels for quite some time, if at all and therefore an indicative planning assumption of £20m impact is included. This represents just over 10% of the Councils income from services |

| Significant risk as per our Audit Plan | Findings and conclusion |
| --- | --- |
| Continued risk from the previous page | • Non-pay inflation – reduction of £7.5m as previous provision has been overly pessimistic.<br>• Other net favourable reductions - £2.7m (including revised estimates of new homes bonus).<br>• Provision of a sum to replenish reserves at £5m.<br><br>We recognise that the current financial and economic conditions are continually changing as well as the government response so the financial modelling is complex and is not an exact science, but the assumptions used by the Council at this stage are reasonable. Modelling the impact of Covid-19 is going to be an iterative process that will assist officers and members to take informed decisions at key stages. The Council's plans will need to be frequently reviewed and updated to take account of the latest data and government announcements. The Council has a good understanding of the impact of Covid-19 and has included a decent reflection of their position in the Narrative Report within the financial statements<br><br>The Council is having to redefine its approach to identifying and delivering savings to breach the gaps identified within the Medium Term Financial Plan. When gaps have been identified in previous years the Council has been able to close these successfully mainly by implementing income generation initiatives limiting the impact on services. The Council will need to re-assess this approach given the current economic climate which will make it far more challenging to generate the additional income required to close future gaps.<br><br>The Council will need to focus efforts on identifying and delivering savings options that are resilient and create long term financial sustainability in a Covid-19 world. In undertaking this exercise, the Council will need to review the new ways of working implemented during the pandemic retaining initiatives that increased productivity, reduced costs and led to no deterioration in services. The Council must continue to be ambitious about its digital programme, reduce areas of unnecessary regulation, rethink the way some services are delivered and embrace more volunteering and community-based delivery of outcomes in line with the Westminster Connects model ensuring that the Council gets the appropriate buy in from Members and staff across the Council. It is crucial that members apply appropriate scrutiny to difficult choices they will have to face in 2020/21 and beyond.<br><br>It is vital that governance arrangements are in place to establish and monitor associated programmes to ensure that they deliver the efficiencies and savings required. Equally important will be for the Council to ensure all employees aware of the type of cyber-crimes that are prevalent and increasing during the pandemic and to ensure that systems and controls continue to be reviewed and strengthened to reduce the risk of cyber crime.<br><br>Getting the balance right between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against the financial impact caused by the pandemic will be vital.<br><br>**Conclusion**<br><br>The challenges associated with Covid-19 are unprecedented in modern times with increasing demand for a wide range of services including adult social care, children's social care, services for the homeless, public health and support for the vulnerable continuing to put pressure on all local authority cash flows. The pandemic has heightened uncertainty and will continue to impact into the longer term. The Council is undertaking the scenario planning required to monitor and react to the financial impact caused by the pandemic.<br><br>The Council has a level of General Fund reserves that are able to withstand the Covid-19 impact in the short term. It is essential that the Council continue to consider long-term financial sustainability and to implement savings initiatives to ensure that general fund reserves are not depleted to levels that would not be able to withstand any further economic shocks. |

## Key findings – Capital Programme

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 as per our Audit Plan | Findings and conclusion |
| --- | --- |
| The Council's capital programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised that several of these schemes continue to be subject to significant slippage | **Summary findings**<br>• The Council has slippage of £71.5m on its 2019-20 capital programme.<br>• The Council has adequate high level arrangements in place for setting, monitoring and delivering the capital programme .<br>• Monitoring of budgets is undertaken on a monthly basis with reports taken to the Capital Review Group, Executive Leadership Team and Cabinet. The reports would be enhanced by greater detail on the underlying cause of the slippage together with the action taken to bring the project back on track or to avoid further slippage.<br>• Given the current capacity constraints and impact of Covid-19, the Council will need to reflect on whether all current capital projects are now essential and whether in the current environment some will need to be paused.<br><br>Over the last few years there has been an increasing pressure on the Council's financial resources, in part due to a large capital programme which is facilitating the Council's ambitions under City for All. The Capital Programme is particularly focussed on achieving the Council's priorities around affordable housing. However, there is a finite amount of resources and capacity within the Council and the Capital Programme for both the HRA and General Fund are already at capacity therefore careful consideration of future projects is required before inclusion into the capital programme. The main forum for reviewing all financial aspects of the capital programme is the Capital Review Group. This group reviews the strategic direction of the programme, ensures outcomes are aligned with City for All and ensures significant projects have a viable Business Case and that Value for Money (VfM) is delivered for the Council. The Capital Review Group also monitors the expenditure and funding requirements of the capital programme and subsequent revenue impacts.<br><br>Governance of capital project business cases will vary depending on the type of work that is being carried out. The business cases allows the Capital Review Group to have a full overview of the priorities, risk, deliverables, cost, and revenue implications of all areas of the capital programme. The business case model that is used is based on HM Treasury Green Book Guidance on Better Business Cases, but adapted for the Council. The Council, through the Capital Review Group, assess the prioritisation of assets and decide on which assets need developing in order to aid the Council in meeting its strategic objectives. All business cases follow a 5 stage process:<br>1) Scoping the Scheme and Preparing the Strategic Outline Case<br>2) Planning the Scheme & Preparing the Outline Business Case (OBC)<br>3) Procuring the Solution and Preparing the Full Business Case (FBC)<br>4) Implementation<br>5) Evaluation<br><br>The process for obtaining an allocated budget with the Capital Programme is by directorates completing the Capital Programme Submission Request (CPSR) form. The CPSR form is divided into the following sections:<br>• Strategic Fit - how the project aligns with the Council's objectives and priorities and what it is trying to achieve.<br>• Financial – what are the financial circumstances for the project ensuring the funding is readily available and the project is affordable.<br>• External Factors - ensuring the project needed meets statutory, legislative or operational requirements and considering links to other projects and the Medium Term Financial Plan savings. Is the project needed because of another scheme or development or is it linked to an MTP saving.<br>• Risk –Assessing whether the success of the project dependent on mitigating high associated risks. |

| Significant risk as per our Audit Plan | Findings and conclusion |
|---|---|
| Continued risk from the previous page | Each section within the form was scored by the project manager against guidelines provided. This was then submitted to the finance team and was collated into the capital programme. Meetings were held with Directors and Executive Directors to provide challenge with the aim of ensuring that:<br>• Profiling is in line with expectations.<br>• All projects that require budget have an allocation.<br>• All projects included should be progressed and require budget.<br><br>For 20020/21 given the tightness of resources the Council strengthened the prioritisation process by ensuring the CPSR forms were moderated by a Prioritisation Working Group. Then for each Directorate the projects were ranked in order of priority. The outcome of the process was presented to Executive Directors and Directors for review and discussions to decide which projects will be progressed which resulted in the Capital Programme that was presented to Capital Review Group for discussion and approval.<br><br>Key risks to schemes are appropriately documented and these include risks associated with funding through third parties, effects of external factors such as interest rate movements or inflation on schemes, unforeseen increases in labour and construction costs potentially arising from Brexit, increased costs arising from surveys and feasibility works.<br><br>The annual capital programme, which is updated for new proposed schemes, revised profiling, slippage and changes in expenditure projections, is presented to Full Council every year. The Council will now need to review all their capital projects to consider the impacts on Covid-19. Some projects may need to be paused whilst others may now have a higher priority to assist the Council in the new ways of working. Council approval of the programme gives an allocation to budget managers in the capital programme. Separate approval is required, in line with financial rules, to spend in line with budget envelopes.<br>The Council's general fund capital programme is categorised into five categories:<br>• Development - key projects that help the Council achieve its strategic aims, in line with City for All. This includes long term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration.<br>• Efficiency - these schemes are funded in accordance with the government's "Flexible use of Capital Receipts" (FCR) initiative and to qualify, the schemes must be designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners.<br>• Investment - one of the key objectives is for the Council to maximise its return on investments and grow income through active management of the investment portfolio. Income through these means will support the on-going financing costs of the capital programme.<br>• Major Strategic Acquisitions<br>• Operational - the Council's operational schemes are centred on capital improvement works to the Council's operational assets, meet health and safety standards and are fit for purpose in terms of statutory guidance and legislation.<br><br>The Council will review periodic projections during the year, where projects do slip, budget managers are required to gain the relevant approval from Capital Review Group to move those budgets into future years with appropriate explanations as to why the project needs re-phasing. The Council hold a capital monitoring spreadsheet which all finance managers are required to update on a monthly basis in line with monitoring deadlines. Monthly monitoring reports are presented to the Executive Leadership Team, members of Cabinet and the Capital Review Group. These reports explain the reasons for slippage at a very high level. The reports would be strengthened by enhancing the detail to explain the slippage, including explanations as to whether the slippage was caused by matters within the Council's control or by a third party delivering the scheme. The reports should include the explicit actions that the Council are taking to bring the project back on track or to prevent further slippage. Explanations should include how the Council is actively managing any third party to deliver the project to the required timeframes.<br><br>The Council had total general fund capital expenditure of £163.684m, with funding applied of £84.691m, a total net outturn position of £78.993m, compared to a net budget of £163.700m. In total there is slippage of £71.5m, which is mainly within the Development (£27.9m), Investment (£20m) and operational (£18.7m) projects. |

| Significant risk as per our Audit Plan | Findings and conclusion |
|---|---|
| Continued risk from the previous page | Analysis of the projects identified that the majority of the slippage impacted on the following 6 projects.<br>• Property acquisition. The £20m slippage is due to no properties being identified that would provide a requisite return thus this is a conscious decision made by the Council.<br>• Contingency – Within the overall Capital budget there is £10m allocated to contingency which for a Council of your size is reasonable. This amount is held for any emergency capital projects that arise that need urgent action or to cover any pressures/ overspends in the year. or key pressures arise in year.<br>• Oxford Street District slippage of £6.5m due to a delay in the appointment of a design and build contractor.<br>• Temporary Accommodation Acquisitions £3.1m of slippage due to a lower than anticipated number of purchases due to market supply.<br>• AHF Payments slippage of £2.7m, due to a review of the contract on the Elgin Estate development, this payment will be made in 2020/21<br>• Lisson Grove Refurb £1m slippage due to a delay in the refurbishment.<br>The above 6 projects equate to £43.3m or 60% of the total slippage on the programme. By way of comparison the 2019/20 capital programme included over 400 projects. Therefore 1.5% of projects have led to 60% of the variance.<br>The HRA Capital Programme spent a total of £118.134m and resulted in an underspend by £31.721m. This balance will be slipped into 2020/21 as all capital schemes are still progress. The most significant delays occurred in Regeneration and New Build Schemes - £23.403m variance. This expenditure has been reprofiled into future years, but is likely to be impacted on delays caused by the pandemic. The Council has endeavoured to keep its development sites open and working during the pandemic, however, inevitably there has been an impact with delays in projects that have been affected by the lockdown restrictions and social distancing. These delays will mean that projects will complete later than planned and this will create further slippage in the capital programme.<br>External capital funding will be uncertain in the immediate future, in particular some highways schemes have already had planned funding withdrawn. However, it is also possible that there will be opportunities as significant investment will be needed to assist in supporting economic recovery. The Council will need to be ready to take full advantage of these opportunities as these arise.<br>The Council has an ambitious capital programme, nearly £1.5bn over the next 15 years, investing in delivery of new affordable homes as well as significant public realm schemes such as the Oxford Street District programme. The capital strategy review will be important in ensuring that all schemes are prioritised to support the delivery of key policy objectives, particularly City for All priorities such as the climate change agenda.<br>**Covid-19 Impact on the 2020/21 Capital Programme**<br>The most immediate impact on the Council's capital programme will result from the postponement of projects that have been affected by the lockdown restrictions and social distancing. These delays will mean that projects will complete later than planned and this will create slippage in the capital programme. This amounts to approximately £50m as at Period 2.<br>However, another significant impact will be the drying up of external funding the Council normally receives to undertake certain types of project. This is particularly the case in Highways. Where the Council was due to start on sites for short term highway projects based on the availability of external funding (e.g. TfL and third party developers) and where this funding source has now been removed, the Council will have to make a decision on whether it wants to continue these schemes. |

| Significant risk as per our Audit Plan | Findings and conclusion |
|---|---|
| Continued risk from the previous page | **Conclusion**<br>We have concluded that the Council has adequate high level arrangements in place to approve monitor and deliver capital projects. The monitoring reports would be enhanced by greater detail on the underlying cause of the slippage together with the action taken to bring the project back on track or to avoid further slippage. The reports should include the explicit actions that the Council are taking to bring the project back on track or to prevent further slippage. Explanations should include how the Council is actively managing any third party to deliver the project to the required timeframes. Given the current capacity constraints and impact of Covid-19, the Council will need to reflect on whether all current capital projects are now essential and whether in the current environment some may need to be paused. |

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, 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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

## Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| | Fees £ | Threats identified | Safeguards |
|---|---|---|---|
| **Audit related (2018/19)** | | | |
| Certification of Housing capital receipts grant (2018/19) | 5,000 | For all three audit-related services, we consider that the following perceived threats may apply:<br>• Self-Interest (because this is a recurring fee)<br>• Self Review<br>• Management | The level of recurring fees taken on their own are not significant in comparison to the total fee for the audit of £159,354 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, each is a fixed fee and there is no contingent element to any of them. These factors mitigate the perceived self-interest threat to an acceptable level.<br>Our team have no involvement in the preparation of the form which is certified, and do not expect material misstatements in the financial statements to arise from the performance of the certification work. Although related income and expenditure is included within the financial statements, the work required in respect of certification is separate from the work required to audit the financial statements, and is performed after the audit of the financial statements has been completed.<br>The scope of the work does not include making decisions on behalf of management or recommending or suggesting a particular course of action for management to follow. Our team perform these engagements in line with set instructions and reporting frameworks. Any amendments made as a result of our work are the responsibility of informed management. |
| Certification of Teachers Pension Return (2018/19) | 10,000 | | |
| Certification of Housing Benefit Claim (2018/19) | 38,000 | | |
| **Non-audit related** | | | |
| No non-audit related services provided | | | |

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Performance Committee. None of the services provided are subject to contingent fees.

Our expectation is that the above grant work will be performed again for 2019/20, for similar fees, although this work has not commenced at the time of writing this report.

# Action plan

**Controls**

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

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Priority | Issue and risk | Recommendations |
|---|---|---|
| (High) | **Quality control**<br>The draft financial statements provided for audit contained a number of fundamental misstatements. A robust management review may have identified and corrected some of these misstatements prior to submission for audit.<br>This has resulted in the audit process being more complex and time consuming than anticipated, due to the high number of issues arising during the course of our work. | Management should ensure that sufficient time is built into the closedown processes to enable a robust management and quality review to be completed prior to the financial statements being submitted for audit.<br>**Management response**<br>We have built a model this year to cross check the current year figures and ensure no misstatements in the accounts. However, a number of 2018/19 figures had been amended and this was not identified during the review. The new model will be adjusted to also check prior year figures to ensure these agree with the 2019/20 published accounts.<br>The adjustments relating to capital will be addressed as per below. The impact of these changes this year have had a limited impact on the bottom line and have no impact on the Council's budgetary arrangements. |
| (Medium) | **Uncertainties regarding treatment of HRA dwelling additions**<br>Following audit challenge, management initially identified that there were 65 dwellings acquired in year that had not been disclosed as part of the HRA dwellings addition balance. This omission would have been material to the financial statements. Following further challenge, management have since asserted and evidenced that these acquisitions were in fact included in the disclosed balance.<br>During the course of the audit there have been multiple iterations of the calculation of the gains and losses on these assets.<br>Where management cannot confirm that the financial statements are consistent with supporting records, there is a risk that there are other, related balances and transactions that are omitted. | A reconciliation between the disclosure note, the general ledger and the Council's asset register and related records is a basic control check that management should ensure is in place going forward.<br>The asset register should be maintained in sufficient detail that this reconciliation can be performed easily, to avoid confusion such as this arising.<br>**Management response**<br>Management recognise the need for more robust reconciliations between HRA asset records and the ledger and are addressing this in the current year. However, the issue identified, ie the non-recognition of impairments of in-year additions, was not one of particular operational significance, but rather the impact of acquiring assets subject to immediate impairment, which were wrapped up in the revaluation gain. The iterations were not as a result of general inadequacy of record keeping around assets. This was an exceptional circumstance and does not have wider implications. Therefore the Council's view is that this is not a high-risk issue. |

# Action plan

**Controls**

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

| Priority | Issue and risk | Recommendations |
| --- | --- | --- |
| (Medium) | **Issues in supporting property data**<br><br>During detailed testing of inputs into the valuations of the Council's HRA assets, we noted inconsistencies between the data provided to the valuer and supporting documentation available. These issues included details on property ownership shares and the letting status of properties.<br><br>In addition, a significant proportion of the supporting documentation available was several years old, and the Council does not perform regular checks over the data held.<br><br>Although we have gained sufficient assurance that these issues have not led to a material issue in this year's financial statements, there is a risk that incorrect data will lead to errors in valuations in future years. | We recommend that the Council implement a process for ensuring that the data held by the Council and passed to the valuer for the basis of their property valuations remains accurate.<br><br>**Management response**<br><br>There is a service procedure for flexible ownership and rent-to-mortgage properties which is used for the shared ownership scheme, but the Council agrees that a process for updating the percentage ownership of the properties should be put in place. |
| (Medium) | **Valuations of assets transferred between categories within Property, Plant and Equipment and Investment Property**<br><br>Where assets are transferred between categories, these should be revalued at the date of transfer within the existing category, using the relevant valuation basis of the existing category. At the end of the year, all assets should be subject to appropriate valuation procedures based on their category at the balance sheet date.<br><br>We have noted instances of assets being revalued on the wrong basis prior to transfer, and of assets not being subsequently valued at year end. An adjustment has been made relating to a material asset that was treated incorrectly in the draft accounts. | Management should put appropriate checks in place to ensure that such transactions are correctly accounted for, and avoid similar errors arising in future years.<br><br>**Management response**<br><br>We agree that, before considerations of materiality, the correct accounting treatment when assets transfer out of IP to operational is for a valuation to take place at the point of transfer, with gains and losses dealt with as for IP. Subsequently at the end of the year, the asset should again be valued to reflect the change in use. The Council's policy is to use the valuation at the point of transfer as a suitable proxy for the changed use valuation at the year-end, on the basis that the value would not have changed materially and then to bring the property into the five-yearly cycle for revaluation of operational assets. Where the extent of the change in use of the asset is extreme (eg offices being used as a care home), a further valuation will be sought to reflect this change in an existing use valuation. In the case of the assets transferring in 2019/20, there is no such extreme change in use and therefore the valuations at the point of transfer have been used in line with the policy. |

# Action plan

**Controls**

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

| Priority | Issue and risk | Recommendations |
|---|---|---|
| (Medium) | **Use of blended indices for valuations**<br>From review of the Council's valuer's approach to revaluations, we have identified that for operational assets that were subject to desktop valuation this year (approx. 80% of the portfolio), indexation was applied using a blend of indices for retail and office properties. The assets in question comprise a wide range of building types, including schools and other specialist assets, and therefore this approach may lead to inaccurate valuations of the assets in question.<br>We have satisfied ourselves that the potential impact of alternative indexation on the 2019/20 financial statements is not material, but this may not have been the case, and a much larger error would have been possible as a result of this issue. | The approach used for desktop valuations should be reviewed for future years, as a more tailored indexation may be more appropriate.<br>**Management response**<br>The audit findings are as much evidence of the inadequacy of indexation as a valuation tool, as the results produced do not demonstrably have greater reliability than the latest full valuations that are on record. Therefore management's view is that automatic indexation of assets not fully valued in-year will not be a part of the process, going forward. HRA dwellings are, of course, the exception. |
| (Medium) | **Valuations of disposed assets**<br>We have noted during our testing that the Council calculated the gains and losses on disposals of assets within the HRA based on their valuations as at 1 April 2018 rather than the updated 31 March 2019 valuations.<br>We have satisfied ourselves that the impact of this on the 2019/20 financial statements is trivial, but this may not have been the case, and a much larger error would have been possible as a result of this issue. | Capital records should be kept up to date for all assets. We recommend that checks are introduced to ensure that the correct data is used for such calculations going forward.<br>**Management response**<br>All valuations are now done on 31 March and this is not an ongoing risk as checks are being put in place. |
| (Medium) | **Useful economic lives of assets**<br>From review of the Council's fixed asset register, we have identified that there are 639 assets with a gross book value of £193m which have no remaining useful economic life.<br>The net book value of these assets is £nil, so they have no impact on the financial statements, however this may be indicative that either:<br>• there are assets in the fixed asset register that no longer belong to the Council; or<br>• the useful economic lives assigned to these assets were not appropriate.<br>In addition we have noted that the Council have written out a number of duplicate assets during the year. | We recommend that the Council review assets with no useful economic life remaining and take action as appropriate based on their findings.<br>**Management response**<br>The assets in question are equipment and infrastructure assets where, for the purpose of capital accounting, they are carried at DRC using standard useful lives. As a result of this policy, there would be assets that are fully depreciated before the end of the useful lives. This will be compensated for by other assets that turn out to have useful lives shorter than the standards. This is a common practice in capital accounting in order to make the framework practicable but still produce figures reliable for the purpose for which they will be used. |

# Action plan

**Controls**

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

| Priority | Issue and risk | Recommendations |
|---|---|---|
| (Low) | **Capital transactions**<br>Through our audit testing we have identified that the Council records all capital transactions on 31 March each year, rather than being recorded at the actual transaction date. | Management should consider whether this is appropriate given the issues that we have noted regarding capital accounting. Recording transactions at the correct point in the year may help address some of our findings.<br>**Management response**<br>The Council's view is that changing its policy in this regards will create a significant amount of extra work for very limited added benefit. |
| (Low) | **Related party transactions and declarations**<br>Our work on the Council's disclosure of related party transactions identified that one return was not received for a senior officer in post at year end, and four returns were not received for individuals who had left during the year or were on long term leave.<br>We have also identified 7 interests that were not disclosed by members.<br>There is therefore a risk that the Council has related parties that they are not aware of. We have performed sufficient procedures to gain assurance that there is no significant omission from the 2019/20 financial statements as a result of this. | Management should obtain returns each year for all relevant staff. We recommend that a process is introduced to ensure that relevant information is obtained from all staff, including those who leave the organisation during the year.<br>In addition, we recommend that consideration is given to the completeness of the declarations made in future.<br>**Management response**<br>HR to liaise and produce a report for finance department about the leavers every month going forward.<br>Management have confirmed there were no transactions to disclose regarding these companies and therefore no misstatement to the accounts. Only one company is in Westminster and is currently dormant. |

# Action plan

**Controls**

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

| Priority | Issue and risk | Recommendations |
|---|---|---|
| (Low) | **Capital programme reporting**<br>Monthly monitoring reports are presented to the Executive Leadership Team, members of Cabinet and the Capital Review Group. These reports explain the reasons for slippage at a very high level. | The reports would be strengthened by enhancing the detail to explain the slippage, including explanations as to whether the slippage was caused by matters within the Council's control or by a third party delivering the scheme.<br>The reports should include the explicit actions that the Council are taking to bring the project back on track or to prevent further slippage, including how the Council is actively managing any third parties.<br>**Management response**<br>This should form part of our quarterly slippage report that goes to the CRG and included in the monthly challenge session with the services. |

# Follow up of prior year recommendations

**Assessment**
- ✓ Action completed
- WIP Implementation in progress
- X Not yet addressed

We identified the following issues in the audit of Westminster City Council's previous financial statements, which resulted in recommendations being reported in our 2018/19 Audit Findings report. We have followed up on the implementation of our recommendations as below:

| Priority | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|---|
| (High) | WIP | At the time of writing our 2018/19 report, the Council were unable to fully reconcile the cash position per the General Ledger to their bank balance.<br>There is a risk that unreconciled items are masking other issues in the Council's financial records. | Following the implementation of the Council's new finance system in the previous financial year, the process and system controls have been embedded within the financial system. Since November 2019 the bank account has been reconciled on a regular basis, with appropriate review.<br>While the Council has fully reconciled the cash position for the main bank accounts, there is one account that remains unreconciled at year end, with an unexplained variance of £11.6k. |
| (High) | ✓ | The Council did not provide the valuer with details of enhancements made to their properties during the prior year. This information may impact on the output of the valuation exercise. | The valuer should be provided with all information necessary to perform their duty, including information on enhancements and potential impairments to assets, and any other changes in-year.<br>The Capital finance team provided the valuer with a list of in-year enhancements to both operational and investment properties during March 2020. We have not found similar omissions during our work this year. |
| (Medium) | WIP | In previous years' audits, our sample testing of creditor balances and payments post year end identified items that did not follow the Council's guidance.<br>Although we were satisfied that this was not indicative of a material misstatement in the financial statements, we recommended that all budget managers follow the Council's accruals guidance when preparing the year end position. | The Council performed a full review of the actual outturn of accruals at 31 March 2019 as part of their preparations for closing down the 2019/20 general ledger and to resolve issues that were identified in previous audits.<br>During our audit work this year we have identified multiple expenditure transactions that were recorded in the wrong year. We are satisfied that these issues are not indicative of a material error in the financial statements, having extrapolated this to £7,296k per Appendix C, but this is indicative that weaknesses remain in the Council's processes. |
| (Medium) | WIP | A number of investment properties were reclassified as operational property, plant and equipment during the 2017/18 valuation process. Our testing identified one further asset that was classified incorrectly.<br>A review of investment properties should be performed each year to ensure that all investment properties are correctly classified. | The Council transferred assets between investment and operational property during the 2018/19 year. When completing our work on the reclassifications performed we found further issues with the classification of properties.<br>We recommended that the Council revisit this over the 2019/20 year.<br>The Council have stated that a review was performed, however as part of our audit work we have identified three assets within the Council's investment properties that were misclassified between the General Fund and HRA. This has no impact on the primary statements and has been adjusted in the disclosure note (Note 21). |

# Follow up of prior year recommendations

**Assessment**
✓ Action completed
WIP Implementation in progress
X Not yet addressed

| Priority | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|---|
| (Medium) | ✓ | Following challenge from the audit team, the Council's valuer provided a valuation for their HRA properties at 31 March 2019 that was £85m lower than the valuation provided at 1 April 2018 that was used as the basis of the value presented in the draft financial statements.<br>This is a material difference in the value of the Council's HRA properties, and the financial statements have been amended. | Management are required to assure themselves that their financial statements are free from material misstatement each financial year. For the 2019/20 financial year, the valuation has been completed with a valuation date of 31 March 2020 to remove the risk of changes in value arising between the valuation date and the balance sheet date. |
| (Medium) | ✓ | During our work on the Council's revaluations, we noted that the Council had omitted the revaluations of some assets when processing valuation information provided by the valuer. | We recommended that a reconciliation is performed between the valuer's report, the Fixed Asset Register, and the General Ledger once valuations have been processed, to ensure that valuations have been input accurately.<br>There is a reduction in trivial errors following checks implemented as a result of last year's recommendations and a thorough review carried out by management.<br>Our audit work this year has not identified any similar non-trivial issues in relation to the processing of the data from the valuer's reports. |
| (Medium) | WIP | The Council experienced delays closing the general ledger and preparing the financial statements in 2018/19, due to the new financial system.<br>The knock-on effect of this, due to the very tight closedown timetable set, was that the time available for quality control processes and checks was limited. This has led to a significantly higher level of audit queries and issues than we would anticipate.<br>The first draft of the Council's financial statements presented for audit had a number of internal consistency issues and casting errors. These errors are not indicative of issues with the Council's financial records. | We recommended that management reconsider their close-down timetable, to allow for contingency and for further quality control checks to be performed.<br>We recommended that in future years, the draft financial statements are checked for grammatical errors, casting errors, and internal consistency before being presented for audit.<br>For the 2019/20 financial year there has been a reduction in trivial errors, following checks implemented as a result of last year's recommendations and the review carried out by management.<br>We have still noted a number of errors in this year's financial statements, as detailed in Appendix C. |

# Follow up of prior year recommendations

**Assessment**

✓ Action completed

WIP Implementation in progress

X Not yet addressed

| Priority | Assessment | Issue and risk previously communicated | Update on actions taken to address the issue |
|---|---|---|---|
| (Medium) | ✓ | During testing of individual journal transactions in 2018/19, we noted that some transactions were not formally approved. We tested these journals to supporting documentation, and were satisfied that there was no indication of management override.<br><br>Where journals are posted without review, there is a risk that this could lead to errors. | We recommended that all manual journals are reviewed and approved prior to posting to the general ledger.<br><br>Journal entries are requested via SharePoint, which automatically generates an email to the relevant Finance Manager for approval prior to the transaction being posted to SAP.<br><br>We have not found any similar issues during our testing in 2019/20. |
| (Medium)<br><br>Previously Low | WIP | During our work on the movement in the Council's HRA balances in previous years, we noted that the Council estimate the value of the land element of the HRA for the purposes of depreciation. The estimate used has remained the same for a number of years, with no formal reassessment.<br><br>Although we are satisfied that this is not a material issue, there is a risk that the estimate used is no longer the most appropriate, and this would impact on the depreciation charged each year, and the processing of any revaluations. | We recommended that formal consideration should be given each year to the appropriateness of the split of HRA land and buildings elements for the purposes of depreciation charges.<br><br>The Council confirmed with their valuer that they are satisfied with the split being applied, but have not been able to provide any supporting evidence for this assertion.<br><br>During our audit testing this year, we have identified that the Council have assumed the split of land and building for other operational properties too, not just the HRA. In addition, there are multiple properties in the fixed asset register that are not appropriately split between land and buildings for the purposes of depreciation.<br><br>An adjustment has been made to correct the financial impact of this issue this year (see Appendix C), and we have been informed that the underlying asset records have been rectified following the 2019/20 audit to avoid similar issues arising in the future. |

# Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

### Impact of adjusted misstatements - Council

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 ending 31 March 2020.

Note that in addition to the adjustments detailed in the tables below, there have been a number of adjustments between the initial draft financial statements and the audited financial statements. These adjustments relate to the prior year figures, where a number of balances and figures did not agree to the audited financial statements from the previous year.

When we challenged management on this:

- some differences were confirmed to be immaterial changes, and as such these should have been processed during the 2019/20 year, and have been amended;
- some differences were due to the finance team picking up incorrect versions of working papers when entering the prior year figures into the financial statements document, and these have been rectified.

In particular, there have been significant amendments to the figures in the Cash Flow Statement.

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Covid-19 grant revenue** | | |
| In March 2020 the Council received their share of the first tranche of Covid-19 funding from Central Government. In the draft financial statements, this was included in the balance sheet as being received in advance, as the Council intended to recognise the revenue in line with related spend. | | |
| As part of our testing, we identified that this grant was unringfenced, and had no conditions attached, meaning that the correct accounting treatment is to recognise the revenue in full in the year that it was received (ie 2019/20). | | |
| The financial statements have therefore been amended as follows: | | |
| Reduce the grants received in advance balance | | 9,125 |
| Increase grant revenues | (9,125) | |
| Management have then included the balance as an earmarked reserve in order to ensure that it is utilised appropriately in 2020/21. | | |

continued on next page

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Community Infrastructure Levy** | | |
| From work performed following audit requests for breakdowns of year-end balances, the Council identified that the creditor for the Community Infrastructure Levy was overstated. At the year end, the balance owed should have been £3,829k instead of £15,913k. The difference should have been recognised as revenues in-year. | | |
| In making this adjustment, management have identified further errors in the recognition of CIL revenues, leading to recognition of a further £14,643k of income in the year. | | |
| The financial statements have therefore been amended as follows: | | |
| Reduce creditors | | 26,304 |
| Increase revenues | (26,304) | |
| Management have then allocated to earmarked reserves (£245k) and the capital grants unapplied reserve (£26,059k). Our work to confirm this adjustment is ongoing. | | |
| **Internal recharges** | | |
| From our detailed testing of a sample of items of operating expenditure, we identified a non-expenditure transaction within the expenditure population. Management confirmed that this related to internal recharges, and subsequently identified four internal recharge accounts within the general ledger which had been miscoded within the draft financial statements. The result of this was to inflate both income and expenditure in the CIES. | | |
| Management have amended the financial statements to correct the coding of these account codes as follows: | | |
| Reduce income | 11,842 | |
| Reduce expenditure | (11,842) | |
| **HRA dwellings valuation report** | | |
| As part of our work on the valuation of the Council's property, plant and equipment, we requested that the valuer provide copies of their valuation reports direct to the audit team. From these reports we identified that the valuer had issued an updated valuation report for HRA dwellings, valuing the portfolio at £1,550k, £1,955k lower than the balance included in the draft financial statements. We have been informed that this valuation was performed at the request of the Council, who had identified that assets disposed in the final few months of the year were still on the property list. | | |
| The valuation of HRA dwellings has been amended to reflect this valuation as follows: | | |
| Reduce gain taken to revaluation reserve | 1,955 | |
| Reduce the value of HRA dwellings | | (1,955) |

**continued on next page**

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Treatment of HRA dwelling assets purchased in-year** | | |
| From our initial work on the PPE disclosure note, we identified a potential error in the treatment of assets that were new in year. The Council had recognised the whole movement on revaluation of the dwellings in-year as a gain, and we were concerned that where properties were new in-year, the application of the 25% social housing factor would mean that these assets suffered a revaluation loss. | | |
| In considering our challenge, management identified that there were 65 dwellings that were acquired in year that had not been disclosed as part of the HRA dwellings addition balance. Management proposed to increase the disclosed additions figure by £47,550k. | | |
| Subsequent review of management's proposed adjustment identified that it was incorrect, as the balance recognised as additions was the year-end valuations of the properties, rather than the capital costs of their acquisition. In addition, it was identified that one of the assets selected for testing was not purchased until the 2020/21 financial year. | | |
| As a result of these issues, the full balance was reviewed, and it has been confirmed that the additions balance should have been £13,977k. | | |
| We challenged management on their proposed amendment, as it was unclear where the corresponding adjustments to the above would be accounted for. In response, management stated that the acquisitions were in fact included in the original additions balance, and that the above adjustments were therefore incorrect. | | |
| During this work we also identified that the Council had incorrectly treated an asset that became operational in-year and therefore should have transferred out of assets under construction (AUC). The costs of this asset were still held in AUC at 31 March in the draft accounts, when they should have been transferred to dwellings when the asset became operational. | | |
| The correct adjustment would simply have been to recognise the transfer of this asset (£9,450k), and then recognise £5,015k of the valuation movement as a loss to the CIES: | | |
| Recognise loss in CIES | 5,015 | |
| Remove £5,015k loss from Revaluation Reserve which is now recognised in CIES | (5,015) | |

**continued on next page**

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Depreciation** | | |
| Work on the valuations of the Council's assets identified that there were a number of assets where the Fixed Asset Register did not contain a split between land and buildings. This has no impact on the balances disclosed in the Balance Sheet, however we identified that there was a risk that this would lead to a misstatement of depreciation. | | |
| The Council reviewed all such assets, and calculated that depreciation in-year had been overcharged by £6,685k. The amendment proposed to the financial statements was as follows: | | |
| Reduce depreciation in-year | (6,685) | |
| Reduce depreciation reversed to Revaluation Reserve on revaluation | 1,895 | |
| Reduce depreciation reversed to CIES on revaluation | 4,790 | |
| Following audit challenge of the land and building splits used in this calculation, a revised estimate of £4,357k was created, leading to a subsequent adjustment as follows: | | |
| Increase depreciation in-year | 2,328 | |
| Increase depreciation reversed to Revaluation Reserve on revaluation | (82) | |
| Increase depreciation reversed to CIES on revaluation | (2,246) | |
| The split of the impact of the above between the Revaluation Reserve and the CIES is currently based on our workings. At the time of writing this report, the Council are working to confirm this adjustement. | | |
| **Assets purchased in year** | | |
| Audit work on revaluations of operational properties identified that where assets had been purchased in-year, the Council used the valuation that had been performed for the purposes of the acquisition as a proxy for year-end value. Testing of a sample of properties identified that the values of these properties at the end of the year were higher than those valuations due to the inclusion of other capitalised costs in the year-end valuation. | | |
| The finance team have quantified this error for adjustment as follows: | | |
| Decrease in value of properties at year end | | (1,955) |
| Loss on revaluation taken to CIES | 1,955 | |

continued on next page

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Valuation of operational residential properties** | | |
| Review of the Council's valuer's workings identified that there were a number of assets which were classified as 'residential' in the Council's asset records, but which had been treated as non-residential for the purposes of the valuer's desktop valuation process. | | |
| The valuer has reperformed their valuation based on the correct classification, and the total book value of the assets in question has now increased by £4,701k from £79,057k to £83,758k: | | |
| Increase valuation of properties in balance sheet | | 4,701 |
| Increase gain recognised in Revaluation Reserve | (4,701) | |
| **Overall impact** | **(36,220k)** | **36,220k** |

# Audit adjustments

### Impact of adjusted misstatements - Group

The Council adjustments will all impact on the group financial statements, in addition to the amendments detailed in the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 |
|---|---|---|
| **Errors in consolidation process** | | |
| Reperformance of the group consolidation process has identified the following adjustments: | | |
| 1. A balance was included in debtors by management, but should have been included in creditors instead. | | |
| Increase debtors balance | | 1,332 |
| Increase creditors balance | | (1,332) |
| 2. A creditors balance was incorrectly treated as borrowing. | | |
| Reduce borrowing balance | | 801 |
| Increase creditors balance | | (801) |
| 3. A £470k intra-group adjustment incorrectly increased income and expenditure in the draft financial statements, rather than reducing it. | | |
| Reduce income | 940 | |
| Reduce expenditure | (940) | |
| 4. An adjustment to recognise grant income incorrectly reduced expenditure in the draft financial statements rather than increasing income. | | |
| Increase income | (16,881) | |
| Increase expenditure | 16,881 | |
| 5. Westminster Community Homes' PPE balance includes depreciation despite the valuation being performed at 31 March 2020 and so is understated. | | |
| Increase PPE balance | | 1,206 |
| Reverse depreciation charge | (1,206) | |
| 6. It was noted that assets under construction within Westminster Community Homes had not been separated out within the PPE balance for the purposes of the balance sheet and the calculation of the revaluation loss. | | |
| Increase PPE balance | | 10,110 |
| Decrease loss on revaluation | (10,110) | |
| 7. An intra-group loan adjustment was incorrectly made, meaning that the group's long term debtors and borrowings were understated in the draft financial statements. | | |
| Increase long term debtors balance | | 15,509 |
| Increase long term borrowings balance | | (13,118) |
| Decrease long term investment balance | | (2,391) |
| **Consolidation adjustments** | **(£11,316k)** | **£11,316k** |
| **Overall impact** | **(£47,536k)** | **£47,536k** |

# Audit adjustments

### Misclassification and disclosure changes - Council

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.

| Disclosure Reference | Detail | Adjustment Agreed |
|---|---|---|
| IFRS 15 (Notes 1 & 8) | Additional narrative has been added to the Council's accounting policies, and additional disclosure has been added to Note 8 in order to bring these in line with the requirements of IFRS 15 – Revenue from Contracts with Customers. | ✓ |
| Expenditure and Funding Analysis (Note 8) | Interest payments as per the analysis by nature table in Note 8 should be £26,776k, rather than the £10,507k per the draft accounts, as the net interest on the net defined benefit liability of £16,269k has been incorrectly excluded. | ✓ |
| Expenditure and Funding Analysis (Note 8) | £30m of grant income was included within employee benefit expenses within the analysis by nature table in Note 8 in the draft financial statements. This has been corrected. | ✓ |
| Earmarked Reserves (Note 18) | Corrections have been made to the presentation of movements in earmarked reserves as a result of our audit checks. Specifically, changes have been made in relation to the Contract Risk Reserve, MRP Equalisation Reserve, and the Transformation Reserve. | ✓ |
| Capital Commitments (Note 19a) | During work performed on the current year capital commitments disclosure, we noted that commitments totalling £231,375k were omitted from the previous year's disclosure. This amendment has no impact on the primary statements. | ✓ |
| Property, Plant and Equipment (Note 19c) | Review of the Council's valuation reports identified an asset with Gross Book Value £3,169k held in Other Land and Buildings in the General Fund which should have been held in Assets Under Construction.<br>Note 19c has been amended to reflect this. | ✓ |
| Property, Plant and Equipment (Note 19c) | Our work identified an asset with Gross Book Value £1,243k held within Other Land and Buildings in the HRA which was a software asset and should have been included in intangible assets. This asset is fully depreciated, and so this amendment has no impact on the Council's balance sheet. | ✓ |
| Investment Properties (Note 21) | As a result of errors in classification found in previous years, we performed checks of the appropriateness of the classification of properties, both as Investment Properties, and between the General Fund and the HRA.<br>Testing of a sample of Investment Properties identified three assets, valued at £39,030k that were classified as HRA incorrectly. The Council have amended the financial statements for this issue, which has no impact on the primary statements. | ✓ |
| | Due to the nature of our sampling approach, one of these errors has been extrapolated across the remaining population. If this error were representative of the population, a further, unadjusted, error of £4,466k exists. This would have no impact on the primary statements. | X |

# Audit adjustments

| Disclosure Reference | Detail | Adjustment Agreed |
|---|---|---|
| Financial Instruments (Note 22) | Debtor and creditor balances disclosed within the Financial Instruments tables incorrectly include prepayments and deferred income. The amounts of the adjustments required to these balances is still to be confirmed. | ✓ |
| Operating Leases (Note 26) | We identified a material disclosure error in the operating leases disclosure, relating to the disclosure of future minimum lease payments for one lease, with the Council operating as a lessor. The draft financial statements included future payments calculated using the straight line method, rather than recognising the future costs in line with required payments per the lease agreement.<br>**Draft** / **Updated**<br>Within 1 year: £29,567k / £29,567k<br>2 – 5 years: £116,606k / £119,653k<br>Over 5 years: £1,242,002k / £1,266,376k | ✓ |
| Fair Value (Note 39) | The draft financial statements included Investment Properties as Level 3 in the Fair Value Hierarchy, whereas the valuer's report states that the portfolio is Level 2, with the possible exception of some specialist assets.<br>Management have confirmed that the property valuations should have been included as Level 2 in the hierarchy.<br>In addition, the sensitivity analysis included in relation to Level 3 Investment Properties had not been updated since the prior year accounts, and was inconsistent with the expert valuer's report. | ✓ |
| Fair Value (Note 39) | Fair Value Through Profit and Loss assets in the draft financial statements omitted £2,391k of assets. These have been added in as a result of the audit. | ✓ |
| Collection Fund Account | There was a significant casting error in the total surplus carried forward at 31 March in the draft financial statements. The total has been corrected to show £48,738k, rather than £67,077k per the draft financial statements. | ✓ |
| HRA | A number of amendments have been requested to the disclosures in the HRA, in order to satisfy the requirements of the Code, including disclosure of: a breakdown of the HRA PPE balance; detail of the depreciation charged to the HRA in year; and capital expenditure and financing, including REFCUS. | TBC |
| Various | A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding. | ✓ |

# Audit adjustments

### Misclassification and disclosure changes - Group

| Disclosure Reference | Detail | Adjustment Agreed |
|---|---|---|
| Group MIRS | Narrative has been added to explain the reason that the group unusable reserves are inconsistent with the Council's single entity MIRS to improve the users understanding of the financial statements. | ✓ |
| Group Cash Flow Statement | The group cash flow statement has been adjusted to remove the receipt and issue of a £10,342k loan from the Council to a subsidiary, which was included in financing activities and the increase in debtors in the draft financial statements. | ✓ |
| Group PPE | Amendments have been made to the face of the group PPE note to correct the in-year movements. The net impact of these adjustments on the Group Balance Sheet is £nil. | ✓ |
| Group Inventories | Disclosures have been added to the financial statements to provide the reader with a greater understanding of the group inventories balance, which is materially different to the Council's single entity balance. | ✓ |

# Audit adjustments

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 | Reason for not adjusting |
|---|---|---|---|
| **Unrecorded liabilities** | | | |
| To address the risk that the expenditure recognised in the Council's financial statements is not complete, we have performed testing of a sample of payments made during the first 2 months of the 2020/21 financial year, to ensure that the related expenditure has been recognised in the correct year. | | | Error is not material, and is an estimated figure based on the result of an extrapolation. |
| For the purposes of this testing, we tested a sample of 92 items back to supporting information. Of these, 6 items related to the 2019/20 year but had not been recognised, and for 1 item the Council were unable to identify which period the invoice related to. | | | |
| The errors identified were extrapolated over the population tested, giving an extrapolated error of £5,803k. | | | |
| We note that included in the payments made early in 2020/21 were a significant number of Covid-19 business rate grants. We had not identified any issues with these items during our testing – 27 of the 92 items tested were grants. We were unable to accurately identify these grants in our population in order to exclude them from our extrapolation, however we considered that there was a risk they would skew the extrapolation results. We have therefore excluded all transactions of £25k and £10k, as an approximation for this population. The errors identified then extrapolate to £7,296k. | | | |
| We therefore consider that the maximum potential impact of the issues identified is £7,296k and we are satisfied that the expected impact of errors relating to incomplete recognition of expenditure is not material. | | | |
| The potential impact of this on the financial statements would be as follows: | | | |
| Increase expenditure | 7,296 | | |
| Increase creditors (accruals) | | (7,296) | |
| We note that some of the expenditure would have been capital in nature, so the whole adjustment would not have impacted on the CIES. | | | |

continued on next page

# Audit adjustments

| Detail | Comprehensive Income and Expenditure Statement £'000 | Balance Sheet £' 000 | Reason for not adjusting |
|---|---|---|---|
| **Valuations of Investment Properties** | | | |
| As part of our work on the valuation of Investment Properties, we selected a sample of individual valuations in order to test the key inputs into these. The Council's valuer was unable to provide supporting calculations for one valuation of £145k. Although this item on its own is below our clearly trivial threshold, if this valuation were 100% incorrect, the extrapolated error would be approximately £2,649k: | | | Error is not material, and is an extrapolation based on a worst case scenario. |
| Recognise loss on revaluation in CIES | 2,649 | | |
| Decrease the value of Investment Property | | (2,649) | |
| **Valuation of the Council's Operational Properties** | | | |
| The Council's valuer performs a full formal valuation of approximately 20% of the Council's operational portfolio each year, with the remaining 80% subject to a desktop valuation based on indexation. Due to the timing of the required report, the indices for February and March 2020 were extrapolated based on data from earlier in the year. | | | Error is not material, and is small in the context of the PPE valuation as a whole. |
| The audit team challenged this, as there was considered to be a risk of material misstatement from the estimated indices. Data for the final two months of the year is now available, and we have estimated that using these would increase the valuation of the Council's operational property as follows: | | | |
| Increase the valuation of PPE | | 5,112 | |
| Increase gain recognised between the CIES and the Revaluation Reserve | (5,112) | | |
| **Overall impact** | **4,833k** | **(4,833k)** | |

# Audit adjustments

### Impact of prior year unadjusted misstatements - Council

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements.

| Detail | Reason for not adjusting |
|---|---|
| **Reclassification of investment properties as operational properties**<br>The Council has reclassified assets from investment property to operational land and buildings during the year. We are satisfied that the accounting treatment at the point of reclassification is in line with the accounting standards. The effective date of change has been assumed to be 31 March 2019, and assets have been transferred from investment property at fair value at that date.<br>However, as operational land and buildings, these assets should have been valued at current value at the balance sheet date, and so a subsequent valuation should have been performed.<br>Whilst the total fair value of the investment properties reclassified is £4,429k and therefore we do not consider that the Council's land and buildings can be materially misstated, the difference between fair value and current value for these assets is unlikely to be trivial. | The Council were unable to quantify this error in order to adjust for it, as the assets were not valued in their existing use in 2018/19.<br>The assets in question formed part of the Council's asset valuation programme for 2019/20. |
| **Valuations provided by the Valuer but not processed**<br>During our work on the Council's revaluations of land and buildings it was noted that the valuations provided in the valuer's report had not been properly processed through the Council's Fixed Asset Register and General Ledger.<br>The Council adjusted for the vast majority of this issue, but our work to review their proposed adjustment identified further valuations that had not been processed. The impact of this on the 2018/19 financial statements would have been to decrease the value of Property, Plant and Equipment by £2,914k, while decreasing the revaluation reserve by £986k and incurring a revaluation loss in Other Comprehensive Income of £1,928k. | This difference was not material, and has been corrected as part of the revaluation exercise in 2019/20. |
| **Potential impact of the McCloud judgement**<br>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for pension schemes where transitional arrangements on changing benefits have been implemented.<br>Discussion is ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government bodies.<br>The Council requested an estimate from its actuary of the potential impact of the McCloud ruling. The actuary's estimate was of a possible increase in pension liabilities of £8,348k, and an increase in service costs for the 2019/20 year of £877k.<br>We satisfied ourselves that there was not a risk of material error as a result of this issue. We also acknowledged the significant uncertainties both relating to the outcome of the appeal process at the time of the approval of the financial statements, and relating to the estimation of the impact on the Council's liability. | The figures provided by the actuary were an estimate, and not a formal actuarial valuation.<br>Although we were of the view that was sufficient evidence to indicate that a liability was probable, we were satisfied that the differences were not likely to be material.<br>This has been corrected as part of the actuarial valuation exercise in 2019/20. |

# Fees

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

| Audit fees | Proposed fee | Final fee |
|---|---|---|
| Council Audit | 159,354 | TBC |
| **Total audit fees (excluding VAT)** | **£159,354** | **£TBC** |

The fees reconcile to the financial statements as follows:

- Fees per financial statements £143k
- Proposed additional fee £16k (see next page)
- Total fees per above £159k

| Non-audit fees for other services | Proposed fee | Final fee |
|---|---|---|
| Audit Related Services: | | |
| • Certification of Pooling of Housing Capital Receipts return 2018/19 | 5,000 | 5,000 |
| • Certification of Teachers' Pensions return 2018/19 | 7,000 | 10,000 |
| • Certification of Housing Benefits claim 2018/19 | 36,000 | 38,000 |
| Non-Audit Related Services | - | - |
| **Total non-audit fees (excluding VAT)** | **£48,000** | **£53,000** |

Our expectation is that the above grant work will be performed again for 2019/20, for similar fees, although this work has not commenced at the time of writing this report.

# Fees - Audit fee variations

## Planned audit fees

The table below shows the planned variations to the original scale (contracted in the case of non PSAA) fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Management have suggested a fee in the region of £159,004 (50% of our proposed fee increase), however we do not consider that this is sufficient to cover the additional work that we are required to complete. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities.

For any further issues that arose during the course of the audit that necessitated further audit work additional fees will be incurred, subject to PSAA approval.

| Audit area | £ | Rationale for fee variation |
|---|---|---|
| **Scale fee** | **143,004** | |
| Increased challenge and depth of work, and reduced materiality threshold | 11,500 | The FRC has raised the threshold of what it assesses as a good quality audit. Inevitably, we need to increase the managerial oversight to manage this risk. In addition, you should expect the audit team to exercise even greater challenge of management in areas that are complex, significant or highly judgmental.<br>For Westminster we have reduced materiality from circa 1.95% in 2018/19 to circa 1.45% in 2019/20, this has increased our work significantly, the volume and scope of our testing, and reporting to those charged with governance, as well as providing you with additional assurance in respect of the audit. |
| Pensions<br>Valuation of net pension liabilities under International Auditing Standard (IAS) 19 | 4,000 | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we plan to increase the level of scope and coverage of our work in respect of IAS 19 this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.<br>Specifically, we have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting. |
| PPE Valuation<br>Work of experts | 9,500 | As above, the FRC has also determined that auditors need to improve the quality of audit challenge on PPE valuations across the sector. We have therefore engaged our own audit expert – (Wilks Head & Eve) **and** increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.<br>The increase includes an estimate for the fee payable to the auditor's expert. We estimate that the cost of the auditors expert will be in the region of £5,000. |
| Group Accounts and IFRS16 work | 7,000 | Note that PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time need to be priced in, including the increase in the work to audit your group financial statements as more companies have been consolidated, and additional work will be required for IFRS16 implementation and corresponding disclosure required in 2019/20 under IAS8. |
| **Revised scale fee (to be approved by PSAA)** | **175,004** | |

# Audit opinion

**We anticipate we will provide the Group with an unqualified audit report**

## Independent auditor's report to the members of Westminster City Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Westminster City Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet and the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Accounts, Notes to the Housing Revenue Account Statement, Notes to the Collection Fund Statement and Notes to the Group Accounts. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director – Finance and Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director – Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director – Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director – Finance and Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

#### Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and group's land and buildings (including Investment Property) and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in Note 3 to the financial statements, the outbreak of Covid-19 has had an unprecedented impact on global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's property valuer's reports and the pension fund's property valuation reports. Our opinion is not modified in respect of this matter.

#### Other information

The Executive Director – Finance and Resources is responsible for the other information. The other information comprises the information included in the Annual Accounts, other than the Authority and group financial statements and our auditor's report thereon, and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by

CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

# Appendix E

### Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

### Responsibilities of the Authority, the Executive Director – Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, set out on page [x], the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director – Finance and Resources. The Executive Director – Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director – Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director – Finance and Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Performance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Annual Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

### Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

# Management letter of representation

Dear Sirs

**Westminster City Council**
**Financial Statements for the year ended 31 March 2020**

This representation letter is provided in connection with the audit of the financial statements of Westminster City Council and its subsidiary undertakings, Westminster Community Homes Ltd, WestCo Trading Ltd, Hub Make Lab PLC, Paddington Recreation Ground charity and Westminster Housing Investments Group, for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the group and Council financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

**Financial Statements**

i. We have fulfilled our responsibilities for the preparation of the group and Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the group and Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and Council financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements, in particular those relating to the valuation of land and buildings and the valuation of the Council's net pension liability, are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the group and Council financial statements:

a. there are no unrecorded liabilities, actual or contingent

b. none of the assets of the [group and ]Council has been assigned, pledged or mortgaged

c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The group and Council financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the group and Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that. We believe that no further disclosures relating to the group and Council's ability to continue as a going concern need to be made in the financial statements.

xv. The outbreak of the Novel Coronavirus (Covid-19), declared by the World Health Organisation as a "Global Pandemic" on 11 March 2020, has impacted global financial markets and travel restrictions have been implemented by many countries.

As a consequence economic activity is being impacted in many sectors. As at the valuation date, our independent valuers have stated that they consider that they can attach less weight to previous market evidence and published build cost information for comparison purposes, to inform opinions of value. Indeed, the current response to Covid-19 means that they are faced with an unprecedented set of circumstances on which to base a judgement.

The Council's valuation is therefore reported on the basis of 'material valuation uncertainty' as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to the valuation of the Council's land and buildings than would normally be the case. Given the unknown future impact that Covid-19 might have on the real estate market, the valuers recommend that the Council keeps the valuation of its properties under frequent review.

For avoidance of doubt, the inclusion of the 'material valuation uncertainty' declaration above does not mean that the valuation cannot be relied upon. It is included in order to be clear and transparent, that – in the current extraordinary circumstances – less certainty can be attached to the valuation than would otherwise be the case.

**Information Provided**

xvi. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the group and Council's financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

# Management letter of representation

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvii. We have communicated to you all deficiencies in internal control of which management is aware.

xviii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xx. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the group and Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiii. We have disclosed to you the identity of the group and Council's related parties and all the related party relationships and transactions of which we are aware.

xxiv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

**Annual Governance Statement**

xxv. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

**Narrative Report**

xxvi. The disclosures within the Narrative Report fairly reflect our understanding of the group and Council's financial and operating performance over the period covered by the financial statements.

**Approval**

The approval of this letter of representation was minuted by the Council's Audit and Performance Committee at its meeting on [date].

**Signed on behalf of the Council**

**[APPEND LIST OF UNADJUSTED MISSTATEMENTS]**