



# The Annual Audit Letter for Westminster City Council

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Year ended 31 March 2020

December 2020



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Westminster City Council (the Council) and its subsidiaries, joint ventures and associates (the group) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the group and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Performance Committee as those charged with governance in our Audit Findings Reports on 10 September 2020 and 2 December 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £15 million (£15.4 million for the group), which is 1.5% of the Council's (group's) gross cost of services.
<b>Financial Statements opinion</b>	We gave an unqualified opinion on the group's financial statements on 24 November 2020. We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and investment properties and the assets of its pension fund given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
<b>Whole of Government Accounts (WGA)</b>	We are in the process of completing work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.
<b>Value for Money arrangements</b>	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 24 November 2020.
<b>Certificate</b>	We are unable to certify that we have completed the audit of the financial statements of Westminster City Council until we complete the work on the Council's WGA consolidation return.

## Working with the Council

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

## Respective responsibilities

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

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

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

# Audit of the Financial Statements

## Our audit approach

### Materiality

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

We determined materiality for the audit of the group financial statements to be £15,400,000, which is 1.5% of the group's gross cost of services. We determined materiality for the audit of the Council's financial statements to be £15,000,000, which is 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of the group and Council's financial statements are most interested in where the group and Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for disclosures relating to remuneration of senior officers, due to their sensitive nature.

We set a lower threshold of £750,000, above which we reported errors to the Audit and Performance Committee in our Audit Findings Report.

### The scope of our audit

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

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

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

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

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

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

# Audit of the Financial Statements

## Significant Audit Risks

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

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>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</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;</li> <li>evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> </ul>	<p>The Council's valuer reported their valuations as at 31 March 2020 on the basis of 'material valuation uncertainty'. Similarly, the Pension Fund property and infrastructure allocations as at 31 March 2020 were difficult to value.</p> <p>We referred to these material valuation uncertainties in our audit report.</p> <p>We did not identify any other issues or concerns to report.</p>
<p><b>Valuation of land and buildings (including investment properties)</b></p> <p>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 at the financial statements date.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert;</li> <li>written to the valuer to confirm the basis on which the valuations were carried out;</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li> </ul>	<p>Our audit work identified a number of issues in relation to the Council's record keeping and transactional processing. These included errors in the treatment of revaluations, issues with the splitting of assets between land and building elements, and incorrect source information used in property valuations. There were also errors in respect of the letting status of individual properties and in respect of ownership shares.</p>

# Audit of the Financial Statements

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b> Continued...</p>	<ul style="list-style-type: none"> <li>• 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;</li> <li>• 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.</li> </ul>	<p>There were a number of adjustments relating to the year-end valuation. Several of the issues that we have identified have resulted in significant amendments to the financial statements.</p> <p>In addition, in our view the Council's Investment Properties are over-valued. We estimate that the maximum impact of these issues is £10,979k. The Council have not amended for these errors as they are not material.</p>
<p><b>Valuation of net pension liability</b> 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.</p> <p>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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li> <li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li> <li>• 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</li> <li>• 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.</li> </ul>	<p>Our audit work has not identified any issues in respect of the valuation of the Council's pension fund net liability</p>

# Audit of the Financial Statements

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p> <p>We 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• tested 'top-side' journals between the general ledger and the financial statements for appropriateness and corroboration;</li> <li>• 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</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>
<p><b>Appeals Provision for National Non-Domestic Rates</b></p> <p>The Council's provision for business rates appeals remains the largest in the country and is a highly material balance in the financial statements..</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• monitored how the appeals process is affecting the Council and considered any changes in the methodology used to calculate the provision;</li> <li>• 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;</li> <li>• reviewed the assumptions made by management and the processes used in calculating the estimate;</li> <li>• tested the Council's calculation and agreed it to relevant supporting documentation; and</li> <li>• reviewed the disclosures made by the Council in the financial statements</li> </ul>	<p>Our work did not identify any significant issues with the calculation of the appeals provision balance.</p>

# Audit of the Financial Statements

## Pension Fund Significant Audit Risks

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

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>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</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>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;</li> <li>liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;</li> <li>evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic;</li> <li>evaluated whether sufficient audit evidence could be obtained in the absence of physical verification of assets through remote technology;</li> <li>evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and</li> <li>evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> </ul>	<p>The Pension Fund Investment Managers included material uncertainties caused by Covid-19 in their valuation of Property and Infrastructure investments</p> <p>We referred to these material valuation uncertainties in our audit report.</p> <p>We did not identify any other issues or concerns to report.</p>
<p><b>Management override of internal controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>reviewed entity controls;</li> <li>reviewed accounting estimates, judgements and decisions made by management; and</li> <li>reviewed unusual significant transactions.</li> </ul>	<p>Our audit work did not identify any issues in respect of management override of controls.</p>

# Audit of the Financial Statements

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b></p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• gained an understanding of the Fund’s process for valuing level 3 investments and evaluated the design of the associated controls;</li> <li>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment;</li> <li>• independently verified the Hermes Property Unit Trust valuation to independent market data;</li> <li>• Obtained audited financial statements for the Hermes Property Unit Trust (March 2020) and Pantheon Infrastructure Fund (December 2019) and compared the audited fund valuation with the Fund Manager capital statements at the same period. For Pantheon we checked any cash movements between December 2019 and March 2020;</li> <li>• Obtained the valuations for the level 3 investments at the end of June 2020. Pantheon investments had increased by £2.4m and Hermes Property had decreased by £0.5m;</li> <li>• reviewed the custodian independent valuation of Hermes Property Unit Trust;</li> <li>• considered the competence, expertise and objectivity of any management experts used; and</li> <li>• verified the investment balances to the fund manager and custodian reports.</li> </ul>	<p>Our work did not identify any other significant issues with the valuation of level 3 investments.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the group's financial statements on 24 November 2020.

## Preparation of the financial statements

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:

- 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.

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.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Performance Committee on 10 September 2020 and 2 December 2020.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website in the draft Statement of Accounts in May 2020.

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

## Pension fund accounts

We gave an unqualified opinion on the accounts of City of Westminster Pension Fund on 24 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Performance Committee on 10 September 2020.

## Whole of Government Accounts (WGA)

We are in the process of carrying out work in line with instructions provided by the NAO. We will issue an assurance statement once this work is complete which.

## Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

## Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of Westminster City Council until we complete the work on the Council's WGA consolidation return.

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# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

## Key findings

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

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in audit plan	How we responded to the risk	Findings and conclusions
<p>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.</p> <p>The Council will need to model the impact of Covid-19 on their 2020/2021 financial position and to decide on appropriate actions to mitigate any significant financial gaps that arise.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Considered the Council's scenario planning and financial monitoring as a result of the Covid-19 pandemic</li> <li>• Reviewed the MTFP, and changes made to this to take into consideration the current impact of Covid-19</li> <li>• Understood the Council's current financial position and reserves balances</li> </ul>	<p>The Council is undertaking the scenario planning required to monitor and react to the financial impact caused by the pandemic.</p> <p>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.</p>
<p>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</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Considered the 2019-20 capital programme, and performance against the planned spend</li> <li>• Gained an understanding of the governance arrangements in place around capital projects, and their planning and approval</li> <li>• Considered the reasons for any slippage, and the clarity of reporting around these issues</li> </ul>	<p>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.</p> <p>The reports should include the explicit actions that the Council are taking to bring the project back on track or to prevent further slippage.</p>

## A. Reports issued and fees

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

### Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings Report - <i>Pension Fund</i> - <i>Council</i>	July 2020 September 2020
Annual Audit Letter	December 2020

### Fees

	Planned £	Actual fees £
Statutory audit - Council	175,004	207,504
Statutory audit - Pension Fund	25,000	28,750
<b>Total fees</b>	<b>200,004</b>	<b>236,254</b>

### Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £143,004 for the Council, and £16,170 for the Pension Fund, assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the table on the next page.

**Fee variations are subject to PSAA approval.**

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
• Certification of Pooling of Housing Capital Receipts return 2018/19	5,000
• Certification of Teachers' Pensions return 2018/19	10,000
• Certification of Housing Benefits claim 2018/19	38,000
• Certification of Housing Benefits claim 2019/20	36,500
<b>Non-Audit related services</b>	
- None	nil

### Non-audit services

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

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

## A. Reports issued and fees

Area	Reason	Fee proposed
<b>Scale fee</b>	Assuming that the scope of the audit does not significantly change	<b>143,004</b>
<b>Increased challenge and depth of work and reduced materiality threshold</b>	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. As outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	11,500
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	4,000
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	4,500
<b>PPE Valuation - use of auditor's expert</b>	We have engaged our own audit expert – Wilks Head & Eve LLP to help ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations.	5,000
<b>Group accounts</b>	PSAA's original scale fee for this contract was set in March 2018, so any new developments since that time are not reflected in the scale fee. This includes the increase in the work to audit your group financial statements as more companies have been consolidated.	4,000
<b>Developments</b>	You are required to respond effectively to new accounting standards and we must ensure our audit work in these new areas is robust. This year we had planned to respond to the introduction of IFRS16, and work in this area had started, despite the subsequent deferral of its implementation.	3,000
<b>Impact of Covid-19 on the audit</b>	Restrictions for non-essential travel have meant both Council and audit staff have had to work remotely throughout the audit visit, which has led to the audit taking significantly longer to complete than previous years. The additional fees for extra costs to us related from Covid 19 are reflected in our other local government audit clients.	25,500
<b>Increased work as a result of issues and errors in property valuations</b>	Our audit work identified a number of issues in relation to the Council's record keeping and transactional processing, which led to significant increases in the amount of time that was required to complete the work required to gain assurance over the Council's property values.	7,000
<b>Total</b>	Subject to PSAA approval	<b>207,504</b>



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