

Audit and Performance Committee Report

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| Date: | 28 November 2023 |
| Classification: | General Release |
| Title: | 2022/23 Annual Accounts |
| Wards Affected: | All |
| Fairer Westminster Summary | The accounts detail the Council's financial performance for 2022/23. Included in audited accounts is the Narrative Report and Annual Governance Statement. |
| Financial Summary: | This report presents the external auditor's Audit Findings Reports for both the main accounts and the pension fund |
| Report of: | Gerald Almeroth, Executive Director – Finance & Resources |

1. Executive Summary

- 1.1 The Audit and Performance Committee reviewed the draft statement of accounts at its meeting on 24 July 2023. Since then, the Council's external auditors Grant Thornton have undertaken their audit of both the Council's accounts and Pension Fund. At the 24 July Audit Committee and subsequent correspondence with committee members, Grant Thornton committed to produce their audit report on the accounts at November's committee.
- 1.2 At the time of publishing this covering report, Grant Thornton still has some review items outstanding that they expect to close off by 28 November committee date. This report provides an overview of the work completed and the expected final position by 28 November.
- 1.3 The Council had a public inspection period of the accounts from 19 June to 28 July 2023. There were no objections raised during this inspection period.

1.4 The Audit Findings Reports set out the changes made to the accounts since the draft set of accounts were published in July 2023.

1.5 The changes to both sets of accounts are outlined as follows:

- Appendix 1 – main accounts: appendix D: Audit Adjustments
- Appendix 2 – pension fund: B: Audit Adjustments

2. Recommendations

2.1 That Audit and Performance Committee notes the expected unmodified (i.e., unqualified) opinion of both the Council's accounts and pension fund report.

2.2 That Audit and Performance Committee considers the findings outlined in Grant Thornton's Audit Findings Reports (AFR) of both the Council's Statement of Accounts and Pension Fund report (Appendices 1 and 2, respectively).

2.3 That Audit and Performance Committee approves the adjustments outlined in both AFRs that will be reflected in the final audited sets of 2022/23 accounts.

2.4 That Audit and Performance Committee delegates any residual matters relating to the audit of the accounts and Pension Fund report to the Section 151 Officer.

3. Background

3.1 The Accounts and Audit (Amendment) Regulations 2021 state that the draft accounts must be published by 31 July 2023, with Council's accounts sign-off by external audit by 30 September 2023. The September deadline was brought forward from the 30 November deadline for the 2021/22 accounts by central government in line with the normal deadlines prior to the pandemic.

3.2 Westminster City Council has a record of meeting these audit deadlines with an unqualified opinion. However, as is reflected across England, Westminster has suffered from the significant delays in the completion of audit work which has led to an audit opinion that has been issued after 30 September deadline.

3.3 As at 16 November, only seven out of 228 English authorities that had published their draft accounts have had them finalised. A further 79 authorities have still to publish their draft 2022/23 accounts.

3.4 In July, the Department for Levelling Up, Housing and Communities (DLUHC) announced a range of proposals to address the backlog of local

audits in England. These included setting statutory deadlines and issuing qualifications and disclaimers of opinion in the short term. While Westminster isn't expecting to be directly impacted by these measures (by way of not experiencing a backlog presently), the Council should get the benefit of a clearer planning and resourcing timetable in future (by way of comparison, only 35% of 2021/22 accounts have been finalised to date).

- 3.5 Lee Rowley MP, the local government minister at the time, outlined the proposals in a letter, which stated that subject to the conclusion of appropriate details, the proposals will be implemented by the end of this year. Lee Rowley was replaced last week by Simon Hoare MP, although the sector expects the proposals developed to still be taken forward.
- 3.6 The AFRs are submitted here with "unmodified" opinions, which is the first stage of the certification process. The term unmodified is the equivalent of unqualified and can be read as a set of accounts that are a true and fair assessment of the Council's finances.
- 3.7 Grant Thornton's Value for Money (VfM) work is still ongoing but will not detract of the sign-off of the accounts. The VfM report for 2021/22 and 2022/23 are being performed concurrently and will be presented to this committee in February. Westminster does not need to perform a Whole of Government (WGA) return as it is below the National Audit Office's materiality threshold. The final certification will be issued at the completion of the VfM work.
- 3.8 The draft accounts and outturn position for 2022/23 were presented to the Committee on 24 July 2023. The audit process is intended to ensure that there are no material misstatements in the accounts and the audit is directed towards forming and expressing an opinion about the financial statements that they provide a true and fair view. An additional check (called a "hot review") has been undertaken for 2022/23 which added another layer of assurance on the quality of the accounts although this has led to some delays to finalise the opinion.
- 3.9 A set of audited accounts is an important assurance for the public in that the financial affairs of the Council are being managed appropriately. Similarly other bodies such as private finance lenders to the Council use audited sets of accounts as a way of gaining an independent view to support their risk rating assumptions. The audit of the accounts has not led to any changes to the outturn as presented in July. Any changes outlined in the AFRs have been accounting or classification issues. The key changes are outlined in the sections below:

Main Accounts (AFR Appendix 1)

- 3.10 During the audit process some adjustments have been made to the statement of accounts and these are outlined in the Audit Findings Report

(AFR) Appendix 1: D Audit Adjustments. These adjustments have had no impact on the bottom line and impact classification on the balance sheet (i.e. statement of financial position). The key findings are:

- A movement of £4.5m from cash to debtors relating to a Corporate Property contract
- Incorrect elimination of the inter-company balances. Group Balance sheet Debtors and Creditor. This impacted the Group statements and not the Council's accounts.
- Incorrect classification of the Inventory held by Westminster Community Homes (WCH) and the resultant, incorrect adjustment of the accounting policy. The Council has always (and believes rightly) accounted for WCH assets as inventory as this stock is being held to pass to Westminster. However, GT's audit team believes that it should be accounted as dwellings and have documented it as such.

3.11 Appendix 1: D of the AFR (page 34 - 39), has noted some more minor classification or disclosure changes to be made to the final audited statements. These are higher than usual due to this year's additional "hot review". All recommendations from last year's accounts have been addressed.

3.12 At the time of writing, there remains a final audit review point regarding the amortisation of a pension upfront payment that the Council was audited on in 2018/19. In that financial year, the Council gained legal advice on its ability to make an £80m upfront payment to clear its pension deficit. This was approved legally and, after numerous review points with the Audit Partner at the time, the audit signed-off, both in regard to the legality of the payment and for the amortisation 13-year period. It was – and remains to be – an important value for money transaction that has reduced the Council's pension liabilities. The "hot review" for 2022/23 has reopened this treatment, despite Grant Thornton approving it at the time. The Council continues to be proactive in its approach to resolve this issue ahead of 28 November Committee.

Pension Fund report (AFR Appendix 2)

3.13 The Pension Fund AFR is outlined in Appendix 2: Audit Findings Report (Pensions) 2021/22. As part of the 2022/23 audit process, the external auditors undertook additional testing to gain assurance that the Pension Fund accounts reflected a true and fair view of the financial transactions of the Fund during the year. Testing was undertaken specifically around the Pension Fund's internal controls, testing on material account balances, as well as high risk items such as fraud risk, management override of controls and level 3 investments.

3.14 Audit adjustments are outlined in Appendix 1: B of the Pension Fund AFR (Page 22-24). There were no material adjustments required while there are some items unadjusted as they were below GT's materiality threshold.

4. Objections

4.1 The auditors have not received any objections in relation to the 2022/23 statement of accounts.

5. Conclusion

5.1 Grant Thornton are expecting to issue unqualified/unmodified opinions on both the main accounts and pension fund, subject to completion of final review points noted in both AFRs.

5.2 Final certification will be given once the Value for Money assessment is finalised. The accounts themselves can be formally approved at the 28 November 2023 Audit and Performance Committee.

5.3 The audited accounts provide further assurance of the Council's strong financial position and that its resources provide resilience against the uncertainty of the current financial landscape and gives some medium-term protection against any changes in core funding arising from future local government settlements. Reclassification of earmarked reserves fall under s151 officer delegated responsibilities and reflect the Council's resource requirements to fund the capital programme and manage risk.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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BACKGROUND PAPERS:

Appendix 1: Audit Findings Report (Council) 2022/23

Appendix 2: Audit Findings Report (Pensions) 2022/23