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Annual Audit Letter 2013/14

City of Westminster Council

October 2014



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 4448 330.

This report summarises the key findings from our 2013/14 audit of City of Westminster Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2013/14 financial statements and the 2013/14 VFM conclusion.

<p>VFM conclusion</p>	<p>We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2013/14 on 30 June 2014. This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p> <p>Our audit report included a Report by Exception highlighting weaknesses, in particular for contract letting, contract variations and formalising contract documentation. These weaknesses were identified from our work considering the objections to the Authority's accounts for the 2008/09 to 2011/12 financial years. Whilst we note that the Authority has made improvements in this area, there is still further work required to embed the improvements across all areas of procurement activity.</p>
<p>Audit opinion</p>	<p>We issued an unqualified opinion on your financial statements on 30 June 2014. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The financial statements also include those of the pension fund and the Authority's Group, which consists of the Authority itself and City West Homes Limited, Westminster Community Homes and WestCo Limited.</p>
<p>Financial statements audit</p>	<p>The Authority worked to an accelerated closedown timetable this year with the aim of having an audited set of accounts by 30 June 2014. We identified a higher number of errors in the accounts than in previous years, with seven audit adjustments with a total value of £93 million. In addition we identified seven presentational adjustments. The Authority also identified approximately 35 areas that required adjustment, which were made. A key contributor to this was the accelerated timetable which resulted in a reduced level and robustness of quality assurance over the draft financial statements. The impact of the adjustments was:</p> <ul style="list-style-type: none"> ■ No impact on the balance of the general fund account as at 31 March 2014; ■ Increase in the surplus on provision of services for the year by £148 million; and ■ Decrease the net worth of the Authority as at 31 March 2014 by £17.7 million.
<p>Annual Governance Statement</p>	<p>We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding.</p>

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Pension fund audit	There were no significant issues arising from our audit of the pension fund.
Whole of Government Accounts	We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.
High priority recommendations	<p>We raised two high priority recommendations as a result of our 2013/14 audit work. These are detailed in Appendix 1 together with the action plan agreed by management. We have had early discussions with management as part of their detailed planning for the production of the 2014/15 financial statements and audit. Officers have developed a detailed project plan aimed at improving the quality of financial management, the draft financial statements and working papers, as well as bringing the timetable forward compared to 2013/14. The project plan includes enhanced project management arrangements, a training plan and the provision of training on a number of technical areas by CIPFA, a Quality assurance and Improvement policy and the plan introduces a monthly hard close from the end of period 8 to the year end. We will formally follow up these recommendations as part of our 2014/15 work. The recommendations focused on:</p> <ul style="list-style-type: none"> ■ Ensuring there are robust quality assurance processes for the draft financial statements. ■ Early review of changes to the Code and prior year errors to ensure that these are not repeated.
Certificate	<p>We have not issued a certificate closing the audits for 2008/09 onwards as we have been considering a number of issues raised by a member of the public. During 2013/14 we have decided six objections, in all cases the auditor decided not to issue a Public Interest Report or apply to the Courts for a declaration that an item of account is contrary to law. However some weaknesses were identified from our work on the objections and these were reported to the Audit and Performance Committee in June 2014. The objections decided in 2013/14 were:</p> <ul style="list-style-type: none"> • budget virements in 2010/11; • the parking enforcement contract – approval of expenditure and invoicing items not in the contract; • the Liberata contract for the management and hosting of the WIMs financial system; • the extension of the Sharpe Pritchard contract; • the Hays contract for temporary staff; and • expenditure relating to the licensing of sex shops. <p>Two objections are on-going:</p> <ul style="list-style-type: none"> • the parking pay by phone contract; and • the Philips bailiff contract. <p>We currently anticipate being able to decide these by the end of the year.</p>

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Audit fee

Our planned fee for 2013/14 was £245,025 excluding VAT, for the main audit and £21,000 for the pension fund. The pension fund audit was delivered in line with the planned fee. The actual fee charged for the main audit was £275,622 excluding VAT. The additional £30,597 plus VAT was agreed with officers for the additional resources needed to complete the audit, largely a result of the reduced quality of the draft financial statements stemming from the much earlier closedown and the number of amendments that were made during the course of the audit.

The fee excludes the additional fees relating to our ongoing consideration of matters raised by a member of the public. The fee charged to date which relates to the work carried out to the end of April 2014 is £30,304 plus VAT of which £5,014 relates to Audit Commission legal fees. A further £5,500 has been incurred since May 2014. Further detail is contained in Appendix 3.

This appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	<p>Quality assurance process and closedown</p> <p>We acknowledge that the financial statements were prepared in a much reduced time period for the first time this year. This presented inevitable challenges in preparing a robust set of draft financial statements for audit.</p> <p>There is a risk that in preparing the draft financial statements in a much shorter timeframe that the Quality Assurance processes get reduced or do not happen at all. This would appear to be the case this year, with a marked deterioration in the quality of the draft financial statements which has resulted in a number of adjustments and other amendments.</p> <p>The Authority should review its accounts preparation timetable for future years and ensure that it includes sufficient time for a robust quality assurance process prior to submitting the draft accounts for audit. The Authority may also want to re-consider its plan to bring the timetable forward further next year, focusing instead on improving the quality of the draft financial statements provided for audit.</p> <p>The Authority should also commit to a hard close at month nine at which point audit will be able to review both Comprehensive Income and Expenditure Statement (CIES) and balance sheet entries, reducing the burden at year end.</p>	<p>Accepted.</p> <p>The decision to adopt an accelerated closedown timetable for 13/14 was taken in early 2014. Officers within Corporate Finance acted promptly to prepare a detailed closure timetable concluding in publication of the accounts on 30th June 2014, a three month improvement on prior years. This timetable included the adoption of a hard-close for Period 10 (January 2014) with transactions for periods 1 to 10 providing a sound basis for the interim audit.</p> <p>Whilst the Council recognises that there were a number of areas which can inevitably be improved in future years and which the Council is already working on, the benefits of the accelerated closure programme are very considerable and more than outweigh the challenges that have been faced.</p> <p>The early closure of accounts is a significant driver of efficiency and therefore in the value that Finance can bring. In terms of efficiency, the early release of finance staff from the closedown process ie the 30 June rather than the 30 September means the team is freed up to concentrate on other financial issues such as the Medium Term Plan (MTP) and further improving and refining financial management processes.</p> <p>In order to continue to obtain the benefits noted above and to further enhance them for 2014/15 the Council will publish its annual accounts earlier again. To enable this, and to reduce the significant volume of fixed asset, grant, provision and related transactions which currently occur in periods twelve and thirteen it will hold a number of hard-closes through the year.</p> <p>This initiative will be supported by an improvement plan which Corporate Finance will draft following a robust and timely review of the accounts preparation and audit process in July 2014. This will be informed by Corporate Finance's own experience as well as information provided by external audit. The improvement plan will be implemented during 2014/15 and will result in continuous programme management of the Council's accounts and ultimately the statement of accounts throughout the financial year.</p>

Appendix 1: Key issues and recommendations

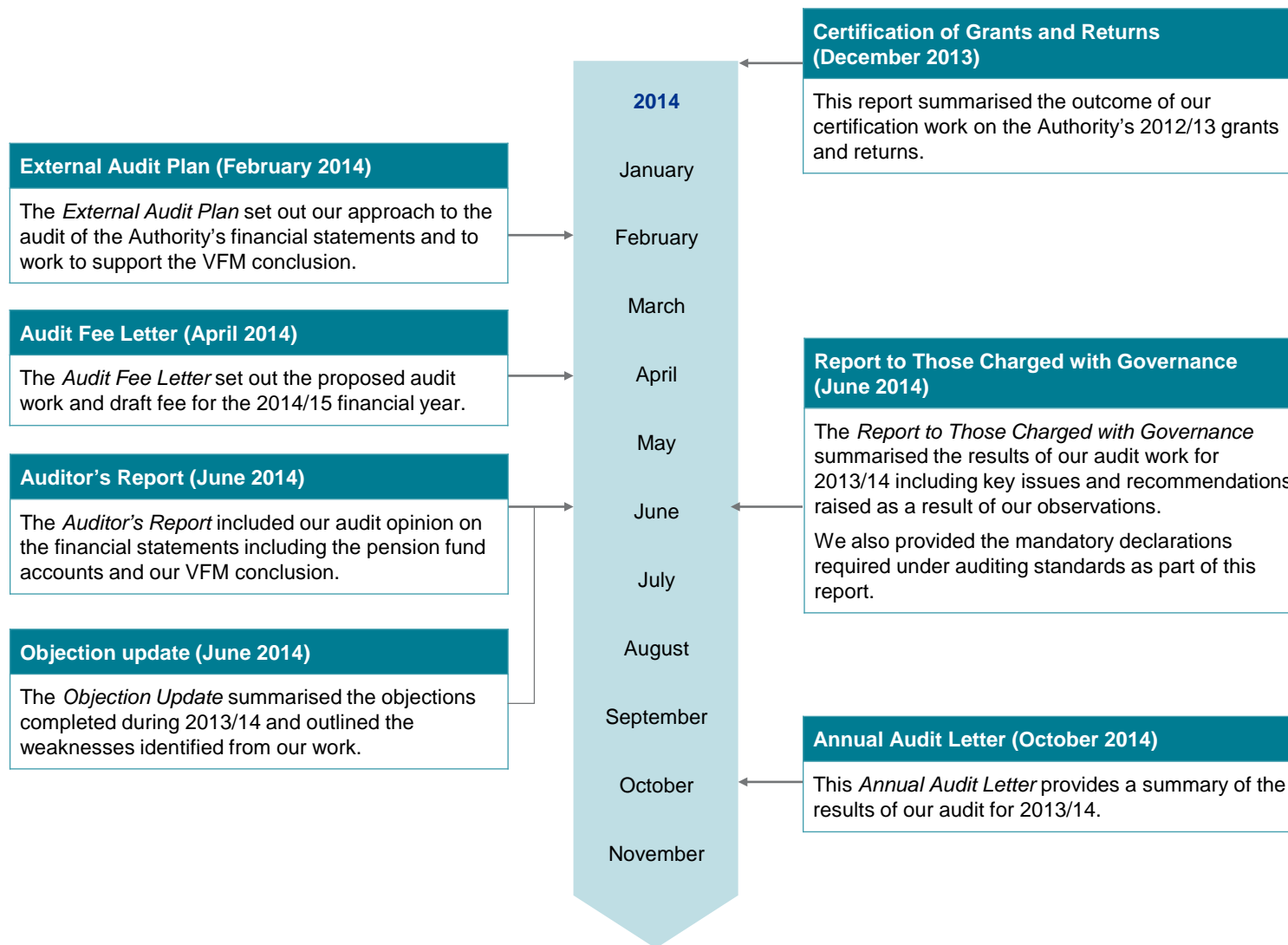
This appendix summarises the high priority recommendations that we identified during our 2013/14 audit, along with your responses to them.

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No.	Issue and recommendation	Management response/ responsible officer/ due date
2	<p>Review of the Code and prior year errors</p> <p>The Authority should ensure that in preparing the draft financial statements, any new requirements of the Code are accounted for appropriately and the errors made in prior years are reviewed and not repeated.</p>	<p>Accepted</p> <p>The improvement plan to be implemented in 2014/15 will incorporate known issues. Where new requirements are identified by the Code these will be monitored, investigated and accounting treatment agreed in a timely manner. This approach will be reinforced by proactive engagement and coordination with Tri-Borough colleagues.</p>

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.



This appendix provides information on our final fees for 2013/14.

To ensure openness between KPMG and your Audit and Performance Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2013/14 planned audit fee.

External audit

Our final fee for the 2013/14 audit of the Authority was £275,622. This compares to a planned fee of £245,025. The reasons for this variance are:

- an increased fee for the audit of the financial statements reflecting additional costs incurred in carrying out the final accounts audit of £30,597 over and above our initial estimate as at April 2013.

Our final fee for the 2013/14 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2013/14* which we are due to issue in January 2015.

Objections

We also charged £30,304, for the work up to the end of April 2014, deciding a number of objections which have been raised by local electors. £5,014 of this relates to Audit Commission legal fees. We have completed further work since May 2014 totalling £5,500 to the 10 October 2014.



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