



The Annual Audit Letter for Westminster City Council

Year ended 31 March 2016

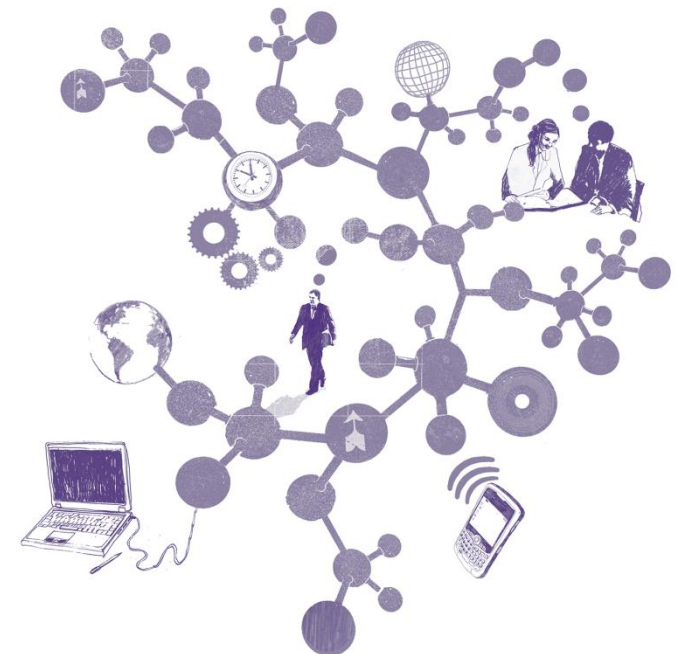
October 2016

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Executive summary

Purpose of this letter

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Westminster City Council (the Council) for the year ended 31 March 2016.

This Letter is intended to provide a commentary on the results of our work to the Council and its 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 (the Code) 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 Report in May and July 2016.

Our 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'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's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

Our work

Financial statements opinion

We gave an unqualified opinion on the Council's financial statements on 15 July 2016. Our work was substantially complete by 12 May 2016 when we reported our findings to the Audit and Performance Committee.

Value for money conclusion

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2016. We reflected this in our audit opinion on 15 July 2016.

Use of additional powers and duties

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. We worked with a local elector to decide upon an objection relating to the 2012/13 to 2014/15 financial statements and formally closed these audit years in May 2016. We did not receive any objections relating to the 2015/16 financial year.

Whole of government accounts

We completed work on the Council/Authority's consolidation return following guidance issued by the NAO and issued an unqualified report on 3 October 2016.

Certificate

We certified that we had completed the audit of the accounts of Westminster City Council in accordance with the requirements of the Code on 25 October 2016.

Certification of grants

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is nearly complete and will be finalised by 31 October 2016 which is in advance of the end November 2016 deadline. We will report the results of this work to the Audit and Performance Committee in our Annual Certification Letter.

Working with the Council

We worked alongside officers during the 2015/16 financial year to gain a comprehensive understanding of the risks and mitigation around the Managed Services Programme to ensure the Council's financial statements were complete with all transactions relating them. The work carried out during the year ensured that the early draft accounts submission on 9 April 2016 were of a good quality.

Our monthly liaison and regular audit visits ensured that the audit of the financial statements was substantially complete by 12 May 2016.

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

Grant Thornton UK LLP
October 2016

Audit of the accounts

Our audit approach

Materiality

In our audit of the Council's accounts, 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 our audit of the Council's accounts to be £15,344,000, which is 1.5% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £695,000, above which we reported errors to the Audit and Performance Committee in our Audit Findings Report.

Pension Fund

For the audit of the Pension Fund accounts, we determined materiality to be £9,891,000, which is 0.9% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £494,000 above which we reported errors to the Audit and Performance Committee.

The scope of our audit

Our audit involves obtaining enough 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 Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- 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 narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts on which we give our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe 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 Council's business and is risk based.

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

Audit of the accounts – Council and Pension Fund

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

Risks identified in our audit plan	How we responded to the risk
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p>	<p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable. <p>Although we rebutted the risk of revenue recognition for 2015/16, our audit work included tests designed to ensure that revenue was materially fairly stated. We did not identify any issues to report.</p>
<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions. <p>Our audit work has not identified any evidence of significant management over-ride of controls. However, our review of journal controls and testing of journal entries has identified a weakness in the system in that cross entity journals can be raised across the Council and Pension Fund.</p>

Audit of the accounts – Council and Pension Fund

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

Risks identified in our audit plan	How we responded to the risk
<p>Managed services partnership</p> <p>Risk of incomplete transfer of data from the old system to the new system</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • gained an understanding of the Council's relationship with the managed service provider for the service issues currently being faced in delivering the expected contractual commitments for the council • reviewed the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT • reviewed the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 • discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion • IT audit review of the general controls in operation in the financial ledger and overall IT control environment. IT assurance over the completeness of the ledger • substantive testing of all items in the financial statements that are greater than tolerable error set for the Council accounts <p>The Council has proactively managed the system and service delivery issues throughout the 2015/16 financial year. Officers of the Council, including the pension fund finance team, have regularly visited the British Telecom (BT) offices to ensure that improved system controls are implemented and BT staff have the required knowledge about Local Authority accounting. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit & Performance Committee to update members on progress being made to improve service delivery for the year end.</p> <p>The Council identified that there were significant issues with the transactional processing in the system and undertook extensive appropriate sample checking to ensure corrective action was taken by BT. In addition, they took action to mitigate the key error areas by performing manual processes locally for monitoring the financial information during the year. The finance team reviewed 16 key financial transactional / processing areas during November, February and April to cover the full financial year. The level of errors in the transactional testing by year end had significantly reduced due to the enhanced control environment after the November testing had been fed back to BT. Due to the work of officers to give the s151 officer (City Treasurer) confidence in the data in the general ledger, the Council were able to deliver the draft accounts in line with their ambitious closedown timetable.</p> <p>Internal Audit carried out a review of the finance testing and concluded that a robust process had been followed. The Head of Internal Audit Opinion is "the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as 'amber' and 'red' all of which have been reported to A&PC".</p> <p>Management acknowledges in the Annual Governance Statement that there is the likelihood of error remaining in the general ledger and that further work is needed in 2016/17 to ensure service provision is at the required level.</p> <p>Our information technology (IT) colleagues have carried out assurance work over the completeness of the transactions in the ledger with BT and Council officers. We obtained assurance that the 2015/16 ledger was complete which enabled us to select samples for testing.</p> <p>Our audit work did not identify any significant issues in relation to the managed services risk.</p>

Audit of the accounts - Council

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

Risks identified in our audit plan	How we responded to the risk
<p>Valuation of property, plant and equipment (PPE) The Council revalues its assets on a rolling basis over a five year period although for 2015/16 it requested that the current valuer review a sample of assets from the 4th and 5th year of the valuation cycle to ensure they were materially fairly stated. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13 • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value. <p>We did not identify any material issues to report. However, we identified two findings to report:</p> <ul style="list-style-type: none"> • an error in Other Land & Buildings General Fund cost of valuation section as a £17m asset was duplicated and two pieces of land totalling £0.9m were incorrectly included in the asset register and note 21C • our testing of investment properties identified an error in one of the asset numbers provided to the valuer. As all investment properties were valued in the year there is no misstatement in the overall valuation in the financial statements. However, there is an error at the individual asset level in the FAR.
<p>Provision for National Non-Domestic Rates (Business Rates) The Council's provision for business rates is the largest in the country and is a highly material balance in the financial statements. The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision.</p>	<p>As part of our audit work we have completed:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Testing of the calculation and agreement to supporting documentation • Review of the disclosures made by the Council in its financial statements <p>We did not identify any issues to report.</p>

Audit of the accounts

Audit opinion

We gave an unqualified opinion on the Council's accounts on 15 July 2016, well in advance of the 30 September 2016 national deadline. The opinion was delayed until July 2016 to comply with the requirements of the Local Audit and Accountability Act 2014. All audit work was completed by 12 May 2016.

The Council made the accounts available for audit on 9 April 2016 and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the accounts

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Performance Committee on 12 May 2016.

In addition to the key audit risks reported above, the key messages arising from our audit of the Council's financial statements are:

- the Council prepared a good quality set of de-cluttered draft accounts for audit by 9 April 2016 for the Council and Pension Fund
- as part of the accounts preparation a small number of entries in the draft financial statements were not entered in to the ledger; the Council processed these journals before the final version of the accounts was produced
- disclosure around the critical judgements made by management in preparing the financial statements have been enhanced in the final version.

Pension fund accounts

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Council's Audit and Performance Committee on 12 May 2016.

In addition to the key audit risks reported above, we recommended one minor adjustment to improve the presentation of the financial statements which was corrected in the final version of the financial statements.

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 with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider

Other statutory duties

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. We did not use these powers in 2015/16.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2015 which specified the criterion for auditors to evaluate:

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

Key findings

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

The key risks we identified and the work we performed are set out in table 2 overleaf.

As part of our Audit Findings report agreed with the Council in July 2016, we agreed recommendations to address our findings:

- Ensure that all new major capital projects go through the business case process and review the approach after the first project has gone through the full process
- Closely monitor the capital programme to ensure slippage levels are reduced in 2016/17
- Continue to identify revenue savings and efficiencies to ensure the budget gap in 2018/19 is delivered
- Continue to action the planned improvements in the weaknesses reported in the AGS

Overall VfM 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 2016.

Value for Money

Table 2: Value for money risks

Risk identified	Work carried out	Findings and conclusions
<p>Significant capital projects The programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised that there was a weakness in arrangements and introduced a new business case process for all major schemes.</p>	<p>We reviewed the new business case arrangements for awarding capital programme expenditure to projects to establish whether the arrangements for identifying, managing and monitoring the project from the initial stage are appropriate.</p> <p>We reviewed one business case that has been going through the new process to date – refurbishment of Westminster City Hall.</p>	<p>The Council recognised the need for tighter controls around the capital programme as the level of projects and spend has significantly increased since the City for All plan was launched a year ago. The plan focuses on key regeneration plans to ensure the City continues to be a hotspot for business, retail and tourism. A new business case template for all major capital schemes was developed during the year. Three are three business case stages: strategic; outline; and full.</p> <p>The new template requires there to be greater scrutiny and information provided at the outline business case stage. We have reviewed the template and concluded that this stage has been split into the correct five key areas: strategic; economic; commercial; financial; and management. These areas ensure that all key information is provided to the Executive Director and Cabinet Member for making the decision about investment.</p> <p>The Council has a Capital Review Group which provides challenge and scrutiny of the business cases. This has an oversight of all capital schemes and monitors progress at the monthly meetings chaired by the Cabinet Member of Finance and Corporate Services. The ward member is also asked to be involved at the outline business case stage to ensure greater member and resident involvement in the scheme.</p> <p>One capital scheme has started to go through the outline business case model. The Westminster City Hall refurbishment programme case sets out clearly the options available to the decision maker with cost benefit and sensitivity analysis of these options. The case is thorough and has been shared with Cabinet Members to ensure robust scrutiny is given to it before the Cabinet meeting to make the final decision.</p> <p>To ensure there is sufficient guidance available, the major projects team has provided training to officers who will be completing the templates and on-going support will be provided by them as the Council recognises this is a major change in the way capital schemes are developed and managed.</p> <p>There were five key capital projects for 2015/16 and these were delayed as a decision was made to put all of them through the new business case process. This is the key reason for the capital programme slippage. This decision enables the Council to give full consideration and have a robust audit trail for projects in the future. The Council has also made a decision to only implement this for new projects and is not going back to review previous project cases. This is a reasonable approach as the level of capital investment was planned to be significantly higher from 2015/16 onwards.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>

Working with the Council

Our work with you in 2015/16

We are really pleased to have worked with you over the past year. We have established a positive and constructive relationship in our first year of audit and look forward to continuing working together as we have delivered some great outcomes.

An efficient audit – we delivered the accounts audit by 12 May 2016 which is over four months before the statutory deadline and in line with the timescale we agreed with you. Our audit team are knowledgeable and experienced in your financial accounts and systems. Our relationship with your team provides you with a financial statements audit that continues to finish ahead of schedule releasing your finance team for other important work.

Improved financial processes – during the year we reviewed your financial systems and processes including employee remuneration, non- pay expenditure, property plant and equipment and welfare benefit expenditure. We worked with you to understand the weaknesses in the managed service arrangement and to ensure we could obtain completeness of the general ledger before the accounts audit began.

Understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness. We highlighted the need for continued close monitoring of the revenue and capital budgets and for the newly implemented capital projects business case methodology to be followed for all major projects.

Sharing our insight – we provided committee updates covering best practice. As the recognised earliest closedown Council in the Country we asked you to be a case study in our national publication on advanced closure of local authority accounts, in our publication "Transforming the financial reporting of local authority accounts". In addition, two members of the finance team supported Grant Thornton workshops on early close as the guest speakers.

Thought leadership – We have shared with you our publication on Building a successful joint venture and will continue to support you as you consider greater use of alternative delivery models for your services.

Providing information – We provided you with access to CFO insights, our online analysis tool providing you with access to insight on the financial performance, socio-economy context and service outcomes of councils across the country.

Support outside of the audit – we introduced you to our Cost Assurance team to explore opportunities to make savings in utility bills.

Working with the Council

Working with you in 2016/17 - Highways Network Asset

The Code of Practice on Local Authority Accounting (the Code) requires authorities to account for Highways Network Asset (HNA) at depreciated replacement cost (DRC) from 1 April 2016. The Code sets out the key principles but also requires compliance with the requirements of the recently published Code of Practice on the Highways Network Asset (the HNA Code), which defines the assets or components that will comprise the HNA. This includes roads, footways, structures such as bridges, street lighting, street furniture and associated land. These assets should always have been recognised within Infrastructure Assets.

The Code includes transitional arrangements for the change in asset classification and the basis of measurement from depreciated historic cost (DHC) to DRC under which these assets will be separated from other infrastructure assets, which will continue to be measured at DHC.

This is expected to have a significant impact on the Council's 2016/17 accounts, both in values and levels of disclosure, and may require considerable work to establish the opening inventory and condition of the HNA as at 1 April 2016.

Under the current basis of accounting values will only have been recorded against individual assets or components acquired after the inception of capital accounting for infrastructure assets by local authorities. Authorities may therefore have to develop new accounting records to support the change in classification and valuation of the HNA.

The nature of these changes means that Finance officers will need to work closely with colleagues in the highways department and potentially also to engage other specialists to support this work.

Some of the calculations are likely to be complex and will involve the use of external models, a combination of national and locally generated rates and a number of significant estimates and assumptions.

We have been working with the Council on the accounting, financial reporting and audit assurance implications arising from these changes. We have issued two Client Briefings which we have shared with key members of the finance team. We will issue further briefings during the coming year to update the Council on key developments and emerging issues.

This significant accounting development will be a significant risk for our 2016/17 audit, so we have already had some preliminary discussions with the Council to assess the progress it is making in this respect. Our discussions with Council Officers to date has highlighted the following:

- the Council has been identified as a pilot site for HNA by us due to the early closedown and focus from officers in delivering the required accounting changes
- finance officers and the audit team have met with highways team to discuss the valuation requirements and assurances over the completeness of information about highways assets
- overall, good progress is being made and the Council is on track to prepare financial statements, including the new HNA figures for early April 2017.

We will continue to liaise closely with the senior finance team during 2016/17 on this important accounting development, with timely feedback on any emerging issues.

Appendix A: Reports issued and fees

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

Fees

	Planned £	Actual fees £	2014/15 fees £
Statutory audit of Council *	185,719	211,362	257,216
Statutory audit of Pension Fund	21,000	21,000	21,000
Challenge work **	0	25,000	19,990
Housing Benefit Grant Certification	25,386	25,386	29,880
Total fees (excluding VAT)	232,105	282,748	328,086

* We agreed an additional fee for the Council audit of £25,643 due to the additional work required to obtain assurance over the completeness of the general ledger and journals population. This has been approved by Public Sector Audit Appointments Ltd.

** The challenge work relates to reviewing and issuing our view on objections from 2012/13 to 2014/15. This fee has been agreed with the Council but is subject to approval by Public Sector Audit Appointments Ltd.

*** Fees for other services – audit related grant services are to be provided in November 2016. These are estimated fees at this stage.

Fees for other services

Service	Fees £
Audit related services ***:	
• Teachers pensions return	3,500
• Pooling of housing capital receipts	4,000
Non-audit services:	
Financial resilience capacity building programme	10,500

Reports issued

Report	Date issued
Audit Plan	3 February 2016
Audit Findings Report	12 May 2016 14 July 2016 (final version)
Annual Audit Letter	October 2016



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