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City of Westminster

Committee Agenda

Title:	**Audit and Performance Committee**
Meeting Date:	**Thursday 21st June, 2018**
Time:	**6.15 pm**
Venue:	**Room 3.6/3.7, 3rd Floor, 5 Strand, London, WC2 5HR**
Members:	**Councillors:** Ian Rowley (Chairman) David Boothroyd Robert Rigby Paul Swaddle

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Reuben Segal, Head of Committee and Governance Services.

Tel: 020 7641 3160 Email: rsegal@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the membership.

2. DECLARATIONS OF INTEREST

To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.

3. ANNUAL ACCOUNTS AND OUTTURN 2017/18 - FORMAL APPROVAL **(Pages 1 - 80)**

Report of the City Treasurer.

Stuart Love
Chief Executive
13 June 2018

City of Westminster

Audit and Performance Committee

Date	**21 June 2018**
Classification:	**For General Release**
Title:	**2017/18 Annual Accounts and Outturn**
Wards Affected:	**All**
Financial Summary:	**This report presents the draft Statement of Accounts for the Council and its Pension Fund and provides a narrative as to the outturn position for the financial year ended 31st March 2018.**
The Report of:	**Steven Mair, City Treasurer**
	Tel: 0207 641 2904 **Email: smair@westminster.gov.uk**

1. EXECUTIVE SUMMARY

1.1. The General Fund revenue position has seen a net outturn of £10.088m underspend against approved budget. This compares to a Period 10 (January 2018) forecast underspend of £8.182m.

1.2. The revenue underspend for the General Fund represents 1.2% of the approved gross 2017/18 budget. In total £7.106m will be left as an addition to the Council's general reserves increasing the balance from £48.777m to £55.883m, as broadly anticipated and approved in the 2018/19 Budget Setting and Council Tax Report. This will increase the council's ability to withstand financial shocks and will strengthen financial standing. The remaining £2.982m has been added to the general fund reserve balance but early in 2018/19 will be allocated to finance the My Westminster programme.

1.3. The Housing Revenue Account (HRA) outturn position shows a net deficit of £0.439m and compares to a budgeted surplus of £1.955m – a variance of £2.394m (2.2% of the approved gross expenditure). This deficit decreases HRA general reserves and together with financing of capital projects reduces the carry forward balance from £41.586m to £25.366m.

1.4. The net General Fund capital outturn underspend of £29.522m represents 17.2% of the approved and re-profiled budget of £171.480m. It should be noted that the gross capital programme at the start of the year was £365.961m.

1.5. The HRA capital programme gross expenditure was £82.167m, compared to an approved budget of £135.371m – a gross underspend of £53.204m (39%).

1.6. The value of the council's Pension Fund was £1.336bn at 31 March 2018. The Fund experienced a rise in investment income and continued to benefit from strong equity markets in 2017/18 with its significant asset allocation in this category.

1.7. The accounts were closed immediately after the year-end and the draft financial statements were sent to the auditors in advance of their audit visit on 3 April 2018. The Council has maintained its position as not only the first local authority in the UK to produce its accounts but also completing the closedown and audit process more promptly than any other major organisation, private, public or voluntary in the country.

1.8. The audit of the accounts document and the supporting working papers was substantially completed by the 20th April 2018 with only limited audit adjustments being identified. These adjustments have now been processed and are summarised in Appendix 1.

1.9. The setting of such a challenging timeframe not only sets the Council apart from all other organisations but also allows financial management resources to be quickly focussed on supporting services in concentrating on the future rather than the past. A significant service transformational benefit also accrues through the setting of aspirational closure timeframes as it enforces fundamental review of process and procedures, and drives best practice.

2. BACKGROUND

Financial Context of the Council

2.1. Context in respect of the council's finances can be found within the City Treasurer's Narrative Report contained within the Accounts. Westminster City Council manages cashflows and assets in excess of £7 billion by:

- collecting £2.3bn of business rates and Council Tax, the largest amount in the country. 94% of this is passed onto central government and other agencies.
- administering the £1.4bn City of Westminster Pension Fund which provides pensions to over 5,700 pensioners and has 4,200 active members.
- managing £2.8bn of land, buildings and other assets, including investment property generating rental income of £20m each year.
- spending a total of approximately £0.85bn each year on Council services.
- accounting for £0.9bn pa of fees, charges, rents, grant funding and capital receipts, which are used to help deliver services and keep council tax down.
- proactively investing cash balances to generate £6m interest each year.

2.2. The public inspection period for the accounts runs from 8th May to 19th June 2018, in line with the Accounts and Audit Regulations 2015. The accounts will be signed off on 21st June subject to the inspection period.

2.3. The accounts are at Appendix 6 and contain full details of the Council's finances for the 2017/18 financial year.

3. GENERAL FUND REVENUE OUTTURN

3.1. The General Fund revenue position saw a £10.088m gross underspend against approved budget, broadly in line with the £8.182m forecast at the end of January 2018. Against a gross controllable expenditure budget of £864.957m, this underspend represents a 1.2% variance. This variance arises from a number of issues across the Council.

3.2. In total £7.106m of the underspend of £10.088m will be left as an addition in 2018/19 to the Council's general reserves increasing the balance from £48.777m to £55.883m, as broadly anticipated and approved in the 2018/19 Budget Setting and Council Tax Report. This will increase the Council's ability to withstand financial shocks and will strengthen financial standing. The remaining £2.982m has been added to the General Fund reserve balance but early in 2018/19 will be allocated to finance the My Westminster programme in addition to an additional small existing reserve as follows:

- £0.5m to deliver My Westminster Fund community based projects
- £1.742m to deliver the currently identified and scoped out My Westminster Projects
- £0.1m to establish the My Westminster Club
- £0.5m allocated directly to Discretionary Housing Payments (DHP) to help residents meet the costs of their housing
- £0.48m to be set aside to augment current or finance a later tranche of projects under the My Westminster programme

3.3. An analysis of the surplus on the General Fund Revenue Account by Cabinet portfolio is set out in the table below:

	Outturn vs Budget (£m's)
Leader of the Council	(1.055)
Planning and Public Realm	(0.592)
Housing	(0.129)
Environment, Sport and Community	(1.037)
Finance, Property and Corporate Services	(3.932)
City Highways	(3.664)
Children, Families and Young People	0.499
Adult Social Care and Public Health	(0.179)
Total	**(10.088)**

3.4. The following sets out an overview of the principal reasons behind the above variances for each Cabinet Portfolio:

Leader of the Council (£1.055m net underspend)

- Policy and Strategy - The underspend of £0.531m is mainly due to a one-off income benefit of £0.400m that is recognised to offset historic CIL administration costs. A detailed review of legacy administration costs was undertaken, and the regulations allow historic costs to be offset from future income. In addition, £0.120m is due to careful management of staff costs. However, this is offset by an overspend on running costs of £0.011m.

- Corporate Strategy and Transformation - The underspend of £0.518m is a one-off benefit due to delays in establishing the priority areas in 2017/18 resulting in, non-pay spend being lower than budget by £0.420m and lower staff costs through careful management £0.098m.
- Evaluation and Performance - The underspend of £0.239m is due to careful management of staff cost £0.273m offset by an overspend on non-pay costs £0.034m.
- PPC Directorate Development - The £0.172m underspend is due to careful management of staff costs £0.169m and an underspend on other running costs £0.003m.
- Chief of Staff - The underspend of £0.014m is due to in year vacancies of £0.046m which is offset by an overspend on other running costs of £0.032m.
- Campaigns and Customer Engagement - The overspend of £0.393m is mainly due to non-pay cost of £0.393m relating to external communication support for campaign projects of which, £0.056m is for the prior year and £0.337m is for in year spend.
- Lord Mayor's Secretariat - The overspend of £0.050m is due to staffing of £0.034m and other running costs £0.016m.
- Cabinet Secretariat and Members Services - The overspend of £0.046m is mainly due to actual staffing costs being greater than budget by £0.024m and other running costs of £0.022m.
- External Communications - The overspend of £0.036m is due to higher non-pay expenditure after a detailed review of all paid invoices.

Planning and Public Realm (£0.592m net underspend)

- Development planning – (£1.326m underspend) - The underspend is due to vacancies within the department of £0.920m, additional income generated during the year of £0.325m as well as other minor cost underspends of £0.081m.
- Public Realm (£0.516m overspend) – additional revenue costs of public realm scoping works
- Building Control (£0.218m overspend) - Reduced income generated in year as a result of market conditions

Housing (£0.129m net underspend)

- Homelessness (£0.032m underspend) - arising from re-procurement of Housing Options Service (HOS) contract and resultant reduction in contract-related costs.
- Other Housing Operations services (£0.097m underspend) - arising from staffing vacancies after reorganisation and miscellaneous contract and running costs.

Environment, Sport and Community (£1.037m net underspend)

- Waste and Parks (£1.124m underspend) - The outturn position is an underspend of £1.124m, largely arising from reduced waste volumes (£1.081m).

- Community Services (£0.157m underspend) - The outturn position is a favourable variance of £0.157m, relating to a combination of salaries and premises underspends and increased rental income at Westbourne Green.

- Public Protection and Licensing – Mortuary (£0.070m underspend) - We have been reimbursed for staffing costs relating to Grenfell which we would not normally receive reimbursement for in the normal course of business.

- Policy and Strategy (£0.028m overspend) - The overspend is mainly due to running costs greater than plan.

- Tri-borough Libraries and Archives (£0.285m overspend) - The outturn position is largely due to under achievement of income within the Registration Service relating to the refurbishment of Old Marylebone Town Hall, and associated launch costs.

Finance, Property and Corporate Services (£3.932m net underspend)

- City Treasurer - The outturn is an underspend of £2.676m against budget. This is due to increased interest earnings of £2.410m, an over recovery of £0.402m from business rates collection, an underspend of £0.080m from the Revenue and Benefits contract and an over-recovery of £0.107m from fines and penalties. However, this is partly offset by an under recovery of £0.220m grant income and £0.142m other running costs.

- Electoral Services and Elections - An underspend of £0.160m is due to election costs being lower than expectation by £0.100m and other running costs of £0.060m.

- People Services - The underspend of £0.133m is due to in year vacancies and running costs of £0.084m and lower corporate training cost of £0.049m.

- Procurement - The underspend of £0.099m is due to an underspend in supplies and services which is mainly driven by capital Esourcing contract costs being lower than budget.

- Corporate Services Trading - The underspend of £0.092m is due to an over recovery of £0.150m from the management of the Matrix contract. However, this is offset by an under recovery on the traded income from Westminster Procurement Services £0.058m.

- Information Services - The underspend of £0.083m is due to contract spend with BT and Virgin Media being lower than budget by £0.291m and prior year s113 income of £0.149m. However, this is partly offset by an under recovery of capitalisation charges £0.130m, higher s113 charges of £0.112m from other boroughs, an under recovery of telephony savings of £0.035m and on other salaries and running costs of £0.080m.

- Corporate Management - The underspend of £0.061m is due to lower legal expenditure then planned.

- Chief Executive Officer - The underspend of £0.045m is mainly due to in year vacancies within the service £0.050m which is offset by an overspend on running costs £0.005m.

- Complaints and Customer - The underspend of £0.037m is due to a secondment of an officer to another authority £0.021m and other running costs £0.016m.

- Land Charges Service - The underspend of £0.028m is due to an over recovery of land charges income.

- Director of Corporate Services - The underspend of £0.008m is due to a salary underspend £0.041m which is partly offset by an overspend on other running costs £0.033m.

- Coroners Service - The underspend of £0.008m is due to running costs lower than plan £0.048m. However, this is offset by costs relating to the Westminster Bridge terrorist attack £0.040m.

- Property, Investments & Estates - The outturn for Property, Investment and Estates is an overspend on £644k. This is related to the under recovery of developer income on the Luton Street and Sir Simon Milton UTC projects. This income will be received next year in line with both projects' progress.

- City Promotions, Events and Filming - The overspend of £0.252m is mainly due to £0.300m income relating to Events and Filming. Non-controllable circumstances have resulted in a downturn in the Events market (£0.200m). This is primarily due to the terror incidents in Manchester and London and the notification in December that the Odeon and Vue cinemas in Leicester Square will be closed for the majority of 2018 for refurbishment. The business rate charge for the advertising screens at Piccadilly Underpass is £0.140m higher than expected which has diluted the anticipated benefits from this initiative. The charge is expected to be challenged however this could take two years to resolve. If successful, then this will be a benefit for the Council in future years. The shortfall is partly offset by a surplus of £0.078m from different Outdoor Media income streams and additional income of £0.110m for a secondment.

- Housing Benefits underspend of £0.182m due to lower bad debt provision adjustment than anticipated

- Licensing - The outturn position is an underspend of £0.079m due to underspends in supplies and services, primarily related to reductions in legal charges.

- Legal Services - The overspend of £0.231m is due to a one-off implementation cost for the alternative business structure initiative of £0.086m and an under recovery from external income due to a downward trend in s106 legal workn of £0.078m, an under recovery on fee charges of £0.100m and a net overspend on salaries and other running costs of £0.009m. However, this is partly offset by a lower s113 charge of £0.042m from the other boroughs.

- Committee, Governance and Members Services - The overspend of £0.024m is due to property costs relating to the use of Council House from London Business School of £0.026m and an overspend on salaries and running costs of £0.032m. This is offset by an underspend on Members allowances of £0.034m.

City Highways Underspend (£3.664m net underspend)

- Parking (£2.418m underspend) - The outturn position is a favourable variance of £2.418m due to underspends on concessionary fares and contract efficiencies. Over recovery of suspensions income has been offset by reductions in paid for parking income.

- Public Protection and Licensing (£0.675m underspend) - The outturn position is a favourable variance of £0.675m due to a combination of underspends in salaries and supplies and services including early delivery of 2018/19 MTP savings, and over recovery of Fixed Penalty Notice income for waste enforcement following legislation change.

- Highways Infrastructure & Public Realm (£0.570m underspend) - The outturn position is favourable variance of £0.570m, largely due to increased income in Road Management alongside salaries underspends in the Highways service.

Children, Families and Young People (£0.499m net overspend)

- Finance and Resources (£0.538m underspend) - this relates to £0.163m Mosaic costs and a £0.375m pressures contingency to mitigate the overspend on Family Services.

- Children's Services Commissioning (£0.251m underspend) - A net underspend of £0.251m as a result of a non-pay expenditure being £0.142m less than expected; reduced Section 113 Shared Service costs of £0.074m and other minor variances of £0.021m.

- Family Services (£0.741m overspend) - Overall £0.741m overspend variance largely as a result of pressures in placement costs, Duty and Assessment staffing and client support.

- Education, Schools and Disability (£0.512m overspend) - There is a £0.512m overspend within Education and Children with Disabilities. This is made up of over-accrued income of £0.275m identified against SEN pupil recoupment; greater legal and tribunal case costs than expected of £0.111m and additional SEN transport pressures of £0.126m

- Safeguarding Review and Quality Assurance (£0.035m overspend) - made up of a number of minor variances.

Adult Social Services and Public Health (£0.179m net underspend)

- Adult Social Care Integrated Care (£0.179m - underspend) – The underspend is due to increased income from other Local Authorities in relation to the sale of block bed spaces.

  Public Health - Underspend (0.0m)

  There are over and underspends and overspends in the Public Health Service and these are detailed in the following bullet points. The net savings reduce the planned transfer from reserves to derive a net nil contribution from the General Fund. Forecast transfer from reserves is significantly less than budgeted due to procurement and efficiency savings achieved and as detailed below:

- Families and Children’s - (£1.351m underspend) - Underspends relating to Savings in Families and Children's services have been made through re-procuring large contracts and seeking efficiencies in delivery, particularly Children’s 0-5 service (£0.491m), School Nursing (£0.378m) & Childhood and Adults Obesity (£0.388m) and £0.094m from reduction in Community based activity.

- Sexual Health - (£0.085m underspend) - Savings have been made from Young People's services which have been combined and now covered in the Support and Advice for Sexual Health (SASH) contract.

- Substance Misuse - (£2.675m underspend) - Core Alcohol and Drug programmes are forecasting savings of £0.530m from lower costs re-procurement, particularly core drugs & alcohol services. Demand for complex placements is not as high as anticipated leading to a saving of £0.358m, along with £0.374m for Reducing Re-offending which although was planned for this year will now commence in 2018/19. Further savings of £0.150m have been identified from reduced demand for Community-based services. Due to the transformative nature of changes within Substance Misuse, the £1.263m contingency fund will no longer be required

- Salaries and Overheads – (£0.509m overspend) - An increase in the number of temporary staff has led to an overspend in the salaries forecast.

- Public Health Investment fund - (£0.125m underspend) - Small underspends in projects due to lesser levels of demand in Learning disabilities and Supported Employment initiatives.

Where appropriate grants within this directorate have been added to reserves to match the resources to future years expenditure, for example to smooth the impact of the potential fallout of the iBCF in 2020/21.

4. GENERAL FUND CAPITAL OUTTURN

4.1. The General Fund Capital Programme shows a net underspend of £29.522m against the 2017/18 approved net budget of £171.480m. It is not expected that this in-year underspend is likely to have any significant impact on the Council's long-term cost of funding the capital programme.

4.2. The table below sets out a summary of the variances between approved capital budgets and outturn by relevant Cabinet portfolio:

	Net Budget (£m's)	Net Outturn (£m's)	Variance (£m's)
Planning and Public Realm	4.250	2.954	(1.295)
Housing	22.379	18.415	(3.964)
Environment, Sport and Community	12.529	12.658	0.128
Finance, Property and Corporate Services	112.431	91.493	(20.939)
City Highways	17.485	15.977	(1.508)
Children, Families and Young People	0.807	0.304	(0.502)
Adult Social Care and Public Health	1.600	0.157	(1.443)
Total	**171.480**	**141.958**	**(29.522)**

4.3 The following sets out a summary of the key projects contributing to the above variances:

Planning and Public Realm (£1.295m underspend)

- The West End Partnership programme (£1.196m) – The programme of works has an underspend in 2017/18 due to delays in commencement of works, primarily related to works on the Oxford Street Transformation which has a revised delivery timetable. However an over-recovery of funding has contributed to this variance, as TfL contributions were received earlier than expected.

- Public Realm Improvement Schemes £0.311m – An accelerated number of public realm schemes and works on these schemes was undertaken in quarter 4 of 2017/18. The increase in expenditure on these schemes is mostly offset by third party funding of these works.

- Bond Street (£0.271m) – £0.445m of expenditure has been re-profiled to 2018/19 due to delays in Crossrail implementation. This has limited site access and reduced the programme undertaken in 2017/18.

Housing (£3.964m underspend)

- Temporary Accommodation Purchases (£1.063m) – Activity is dictated by the availability of suitable properties to purchase. There were 18 "Out Of Borough" properties purchased during the year at average cost of £0.262m each incl. all fees.

- Private Sector Housing Discharge Initiative (£3.000m) – Activity will commence in 2018/19 as originally planned.

Environment, Sport and Community (£0.128m overspend)

- Moberley Sports Centre Redevelopment £0.375m – Construction is on programme and Jubilee phase one is complete, with practical completion of phase two scheduled for September 2020. Moberly Leisure centre is expected to complete in July 2018. The 2017/18 current budget reflected the reduced construction progress in Q3 however, some of this progress was recovered resulting in an in-year overspend.

- Libraries 6 year redecoration programme (£0.290m) – Delays in design work on the four sites to be refurbished means that the majority of the 2017/18 budget has been re-profiled into 2018/19, as works cannot commence until the designs have been improved.

Finance, Property and Corporate Services (£20.939m underspend)

- Strategic Acquisitions (£4.494m) – The approved budget assumed completion would be achieved on 2 Upper Tachbrook Street, however, this been delayed. Strategic acquisitions are, by their nature, reactive and rely on properties becoming available to purchase.

- City Hall (£1.938m) – A revised payment schedule from the main contractor resulted in expenditure being re-profiled into next financial year. Also £1.100m relates to contingencies held against the project for professional fees and surveys which will now be utilised in 2018/19.

- Sir Simon Milton University Technical College £0.545m – The school is now open with the residential element expecting practical completion in May 2018. EFA income received exceeded budget by £0.400m.

- Lisson grove Programme (£0.364m) – A multi-disciplinary team have now been appointed to carry out further design and site investigation work on the site. An OBC will be completed in 2018/19 to take the project to the next stage. The approved budget included £0.300m relating to surveys on the site, which will now take place in 2018/19.

- Landlord Responsibilities (£0.779m) – The service have a schedule of works for works that are required however these have not progressed as quickly as anticipated.

- Digital Transformation £0.610m – The overspend is due to the opportunity to finance all 2017/18 Digital Transformation expenditure with flexible capital receipts without the need to capitalise part of the project costs as originally budgeted. A review of the MHCLG guidance for the use of flexible capital receipt evaluated that the Digital Transformation expenditure meets the criteria of qualifying expenditure and in-year capital receipts were available to offset this cost.

- Capitalisation of Pension Contribution (£10.000m) – After the release of the statutory guidance from the HMCLG regarding the flexible use of capital receipts a decision was made to contribute funds to the pension deficit. This would result in future savings meeting the definition of qualifying expenditure. The £10m underspend is due to the fact it was anticipated that a contribution of £20m would be made this year. However, it was decided to move £10m of the contribution into next financial year when the council would receive more qualifying capital receipts. Further details on Flexible Use of Capital Receipts can be found in section 5 of this report.

- Capital Contingency (£4.500m) – A budget was created for contingency purposes within the capital programme. The forecast was reduced each period as the likelihood of the budget being required became less likely, resulting in a nil outturn and an underspend against the budget.

City Highways (£1.508m underspend)

- Cambridge Circus Improvements (£0.469m) – There are £0.330m of utilities to be billed in 2018/19 relating to end of project works, as well as final stage 6 costs. Therefore this underspend will be re-profiled. The budget of £1.268m included an element of contingency which is now not required.

- Planned Preventative Maintenance Highways (£0.943m) – Against a gross budget of £9.5m, £0.642m of expenditure is to be re-profiled to 2018/19 due to delays on the below schemes, all of which will be complete in April 2018:
    - Tothill Street - Drainage works required before implementation can commence - £0.100m
    - Westbourne Terrace - presence of high voltage cables on site is delaying implementation - £0.300m
    - Third Party billing and reconciliations to be finalised - £0.242m

- Local Safety and Traffic Management Schemes (£0.475m) – TfL Income has been fully claimed in year. The scheme on Sutherland Avenue has been delayed due to adverse weather conditions and will be completed in April 2018. Various smaller projects have also had delays in commissioning and will be re-profiled to 2018/19.

- Waterloo and Golden Jubilee Bridges £0.524m – Access to site was limited for the first 9 months of the year due to security measures put in place by the Metropolitan Police, which changed the weight of the bridge. Therefore, approval was granted to re-profile the budget into 2018/19. However work accelerated from period 10 resulting in a higher than anticipated outturn.

Children, Families and Young People (£0.502m underspend)

- Remodelling of Early Help/Children's Services Investment (£0.502m) – The spend is related to works at Bessborough Children's Centre. Works have been re-profiled and will be completed in 2018/19. The overall projected cost have not changed.

Adult Social Care and Public Health (£1.443m underspend)

- Beachcroft (£1.400m) – A full business case was approved in November 2017 and demolition works have commenced. Contractors have been appointed, with construction starting at the beginning of 2018/19, and are estimated to complete in March 2020.

Expenditure of £2m has been incurred in 2017/18, fully funded by the Affordable Housing Fund. The in-year underspend is due to delays to onsite commencement which has resulted in a CIL payment of £1m slipping to 2018/19 and an underspend of £0.400m on enabling works.

Overview of Capital Programme and Delivery Strategies

4.5 The Council's capital programme is prioritised into three key areas, Development, Investment and Operational.

The table below shows the breakdown of the capital programme across these areas:

Designation	Net Budget *£000's*	Net Outturn *£000's*	Net Variance *£000's*
Development	33,226	28,108	(5,118)
Investment	16,000	15,713	(287)
Operational	122,255	98,137	(24,117)
	171,480	141,958	(29,522)

Development

4.6 Development projects are key schemes that help the council achieve its strategic aims in line with City for All. This includes the long-term sustainability of Council services through income generation and meeting service objectives in areas such as affordable housing and regeneration.

4.7 Development schemes make up a sizable portion of the gross capital budget and include significant projects such as the Moberley Sport Centre Redevelopment, Seymour Leisure Centre, and Sir Simon Milton University Technical College, which will benefit those who live and work in Westminster.

Investment

4.8 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.

4.9 In 2017/18 a gross budget of £16m was allocated to be spent on investment opportunities in the form of property acquisitions, of which over 98% was used. Property acquisitions are by their nature reactive, due to the need to wait for suitable opportunities to become available. Therefore spend each year can vary depending which investment properties become available during that time.

Operational

4.10 The Council's operational capital strategy is centred on capital improvement works to the Council's operational property portfolio. However, there are other key objectives such as the need to ensure its assets meet health and safety standards and are fit for purpose in terms of statutory guidance and legislation, as well ensuring that the Council continues to invest in its current buildings and infrastructure to avoid incurring significant future costs.

4.11 Operational schemes make up the largest section in the capital programme and have a gross budget of £200m, with external funding resulting in a net budget of £122m. These include a variety of programmes including school expansions, cycle schemes, planned preventative maintenance of the highways and lighting, along with investment in leisure facilities, parks and open spaces.

5. Flexible Use of Capital Receipts

5.1. In March 2016, the MHCLG issued statutory guidance on the flexible use of capital receipts, which allows local authorities to use capital receipts received in the years for which this flexibility is offered, to fund the revenue costs for service reform and transformation. Qualifying projects are those that are forecast to generate ongoing savings in the delivery of public services and/or transform service delivery to reduce costs. This guidance covered the period 1 April 2016 to 31 March 2019, and applies only to capital receipts generated during this period. However in the Provisional Local Government Finance Settlement in December 2017, it was announced that this scheme would be extended for a further three years.

5.2. The Council identified two capital projects, Westminster City Hall refurbishment and Digital Transformation which have significant revenue spend, along with a contribution to the pension fund deficit which meet the definition of qualifying expenditure. Ongoing savings are expected from these projects and the council received approval last year to part-fund these from capital receipts.

Pension Fund Deficit

5.3. The Council plans to utilise capital receipts in order to reduce the historic deficit on the Pension Fund and thus make future ongoing net savings in annual deficit recovery payments. Council approval for payment of increased deficit contributions is set out in the 1 March 2017 revenue budget report, para 2.1, bullet 10, with reference to para 5.34. By contributing three one-off annual £10m contributions funded from flexible capital receipts, instead of the pension fund deficit being completely paid in the late year of 2031/32 this will be brought forward to the early part of 2030/31, with total savings of £25.9m and the funding level improving from 79.3% to 82.1% by 2019/20.

Digital Transformation

5.4. The Digital Transformation Programme is an enabler which will deliver on-going revenue savings and efficiencies within Council services and enhance the contact experience of our customers. The Programme incurred £2.666m of spend in 2017/18, which is one-off expenditure that will aid the realisation of existing commitments and deliver future financial savings. The savings target is £3.517m over two phases, Base case £1.017m and Accelerate case £2.500m. The Base case captures existing Medium Term Plan (MTP) commitments that are dependent on the delivery of the digital platform to transform identified services.

City Hall Refurbishment

5.5. The refurbishment of City Hall meets the definition of qualifying expenditure in the Flexible Use of Capital Receipts guidelines. The completed scheme will deliver increased income streams for the council from rental income as well as reduced running costs. The building will be more efficient than it previously was and the income will be generated from leasing out 10 floors of City Hall. It is anticipated that the Council will receive currently estimated savings stabilising at £4m from 2024/25 onwards

5.6. As part of the Capital Strategy approved in March 2017, approval was given to fund qualifying revenue expenditure on the City Hall Refurbishment via capital receipts. A subsequent Cabinet Report in June 2017 gave further approval for the use of up to £27.1m worth of capital receipts to fund qualifying revenue expenditure. When Full Council authority was given for the use of capital receipts, it was outlined that this would be subject to an annual review process for members to approve. During 2017/18, the Council has spent £9.9m on revenue expenditure related to the refurbishment of City Hall.

6. HOUSING REVENUE ACCOUNT OUTTURN

6.1. The Housing Revenue Account (HRA) has generated a £0.439m deficit, which is £2.394m under the budgeted target for the year. HRA general balances which covers the deficit and the financing of capital schemes reduces from £41.586m to £25.366m at the end of 2017/18.

6.2. HRA income of £109.463m, was an under achievement of £1.568m compared to budget. This was mainly due to lower income from lessees for major works and from commercial properties.

6.3. Major works income from lessees was £3.828m less than budget as the number of projects reaching completion was below expectations following the mobilisation of new contractors. Commercial property income of £4.426m was below budget by £0.553m due to an increase in trading charges. Income from service and facilities charges exceeded budget by £1.464m on a gross basis. However, after accounting for costs the net income was £0.239m more than budget mainly from higher lessee service charges. Income from lease extensions and asset sales was higher than budget by £1.372m as the volume of activity exceeded budgeted levels. Dwelling rent of £74.348m was under budget by £0.126m, whereas non-dwelling rent was over budget by £0.137m. Several other income lines under recovered by £0.034m.

6.4. HRA expenditure of £109.822m, an overspend of £0.746m, was due to lower costs in housing management, repairs and maintenance and capital financing charges being offset by an increase in the provision for bad debts.

6.5. Housing management costs of £51.798m under spent by £0.744m. Housing management costs include the City West Homes transformation programme for which a reserve of £3.162m is no longer required and has been released. Repairs and maintenance under spent by £0.291m with lower void and responsive repairs costs offset by higher planned maintenance costs. This underspend represents 1.48% of the annual repairs and maintenance budget of £19.662m.

6.6. Capital charges that are made up of depreciation expense and interest payments, underspent by £0.790m. Depreciation expense of £23.371m was £0.696m lower than budget because of improvements in the accuracy of recording components within the asset register. Borrowing costs were £0.094m less than budget as a loan was refinanced at a lower interest rate. A review of HRA debtors led to a reduction in the bad debt provision for tenants (£0.217m) which was offset by an increase in the provision for leaseholders (£3.223m). For leasehold debt, the age profile was analysed and a higher rate of provision set for debts older than a year rather than a flat rate being applied across all debt categories. The adverse variance was £2.570m against a budget of £0.500m.

6.7. All three capital groupings within the HRA underspent compared to budget. The main reason for the underspend on Major Works was due to the new term contractors taking some time to mobilise to deliver external works. Regeneration schemes were re-profiled owing to a variety of issues including stakeholder consultation, unforeseen delays, procurement issues and planning processes.

6.8. The most significant in-year capital variances to budget on specific schemes include:

- £3.636m Self Financing scheme – A greater number of suitable properties became available during 2017/2018 than was originally anticipated.
- £1.882m Almacantar/Edgware Road - The milestone payment of £1.935m that relates to start on site was expected in 2016/17 but was paid in 2017/18.
- £1.491m External Works & Laterals - Works progressing ahead of forecast.
- (£6.185m) Church Street Phase 2 - The reduced forecast expenditure is due to acquisitions not yet identified/ implemented.
- (£4.831m) Lisson Arches scheme - The major works contract period was delayed as a result of the scale of unforeseen statutory services relocations required.
- (£4.880m) Luton Street - The terms of the deal with the developer have had to be re-negotiated due to updated design resulting in an underspend.
- (£6.338m) Parsons North - As a result of the developer exiting the deal and the change to a self-delivery strategy has meant an under spend.
- (£9.192m) Cosway Street - The start date has slipped resulting in costs moving from 2017/18 to 2018/19.
- (£3.237m) Ashbridge - Expenditure has reduced due to a change in the delivery model strategy.
- (£4.509m) Combined Heating programme- A delay in securing the Business Case approval has resulted in an under spend.
- (£5.599m) Ebury Bridge – A full scheme re-design was required because the original scheme was considered financially unviable by the market.
- (£1.852m) Infill Schemes - The underspend is the result of programme delays.
- (£0.724m) Kemp House - The developers programme has slipped resulting in practical completion not being achieved in 2017/18.
- (£1.670m) Lift works to HRA stock – Slippage of works while the new term contractor mobilises to deliver the programme.
- (£4.585m) External Repairs & Decorations - Legacy costs of £1m have been contained. Contingency budgets not required.
- (£1.531m) Fire Precautions work – The budget included specialist works which have slipped to 2018/19.
- (£1.441m) Major Works General – Under spends on heating offset by additional expenditure on planned roofing.
- (£4.086m) Contingency – Not required on Regeneration or Other Projects schemes.

7. CORE ACCOUNTING STATEMENTS

Balance Sheet

7.1. The accounts use International Financial Reporting Standards (IFRS) to produce the Core Statements. These are in turn adjusted by statutory regulations relating specifically to local government accounts.

7.2. The Balance Sheet in the table below shows that the Council's net asset position increased by £338.371m from £1.906bn in 2016/17 to £2.244bn in 2017/18.

Balance Sheet

1 April 2016 Restated	31 March 2017 Restated		Note	31 March 2018
£'000	**£'000**			**£'000**
		ASSETS		
		Non-current		
1,952,377	2,107,037	Property, plant and equipment	Note 18c	2,382,425
42,746	42,746	Heritage assets	Note 19	42,846
405,269	454,840	Investment property	Note 20	385,314
1,830	1,077	Intangible assets		875
30,925	27,386	Long-term investments	Note 21a	2,433
12,394	15,229	Long-term debtors	Note 26	38,015
2,445,541	**2,648,315**	**Total long term assets**		**2,851,908**
		Current		
514,833	742,980	Short-term investments	Note 21a	864,800
235	179	Inventories		94
137,666	73,369	Short-term debtors	Note 26	93,842
117,580	170,302	Cash and other cash equivalents	Note 21b	161,238
2,250	2,250	Assets held for sale	Note 20	-
-	-	Investment property held for sale	Note 20	40,000
772,564	**989,080**	**Current assets**		**1,159,974**

		LIABILITIES		
2,109	2,069	Short-term borrowing	Note 21a	32,069
259,931	471,584	Short-term creditors	Note 27	642,430
6,151	8,341	Revenue receipts in advance	Note 13	5,635
268,191	**481,993**	**Current Liabilities**		**680,134**
202	204	Long-term creditors	Note 27	2,917
153,936	121,504	Provisions	Note 28	81,451
251,465	251,269	Long-term borrowing	Note 21a	221,230
605,540	786,898	Other long-term liabilities*		710,551
55,388	89,789	Capital receipts in advance	Note 13	71,490
1,066,531	**1,249,664**	**Long-term liabilities**		**1,087,639**
1,883,383	**1,905,738**	**Net assets**		**2,244,109**
652,657	575,719	Total Usable Reserves	MiRS	628,395
1,230,726	1,330,019	Total Unusable Reserves	Note 29	1,615,714
1,883,383	**1,905,738**	**Total Reserves**		**2,244,109**

7.3. The £338.371m increase in net assets is mainly due to the following factors:

- Increase of £275m in Property Plant and Equipment –There has been a significant increase in the capital spend on projects within Public Realm Improvement Schemes (e.g. Moberly Jubilee), Sir Simon Milton UTC and the Dudley House Academy. City Hall refurbishment spend is £28m.
- Decrease of £69m in investment property – Downward revaluation accounts for £23m, and £63m is due to reclassification of properties from investment to operational and held for sale. This reduction is offset by additions of £16m.
- Increase of £170m in short term creditors, this is due to an increase in NNDR amounts payable to GLA. This has increased by £113m as a result of the final position being arrived at the end of 2017/18.
- Increase of £121m in short term investments – This is mainly due to the increase in investments from loans & receivable and offset by the reduction in investments from 'available for sale' financial assets.
- Decrease of £141m in long term liabilities – £76m in the pension fund liability, £40m in provisions and £30m in long term borrowing
- Increase of £286m in unusable reserve – This is due to an increase of £68m in the Revaluation Reserve representing unrealised gains on property plant and equipment, £70m in Capital Adjustment Account, £76m in Pension Reserve and £70m increase in the Collection Fund Adjustment Account for income that will be received in 2018/19 as per regulations. The remaining £2m is made up of smaller movements across other unusable reserves.

Comprehensive Income and Expenditure Statement (CIES) and Movement in Reserves Statement (MiRS)

7.4. In addition to the normal budget monitoring report that is reported monthly, local government accounting requires the production of a comprehensive income and expenditure statement and a movement in reserves statement. The former is derived using international accounting standards and the movement in reserves statement is designed to adjust for technical transactions such as depreciation.

7.5. A reconciliation of the CIES with the budget monitoring is shown below:

Summary reconciliation from CIES to Outturn

	General Fund Balance (£m)	**Housing Revenue Account** (£m)	**Total** (£m)
Surplus of Provision of Services (as per CIES)	144.264	11.297	155.561
Technical accounting adjustments (as per MiRS)	(126.091)	(30.679)	(156.770)
Use of earmarked reserves	(8.085)	3.162	(4.923)
Net surplus against budget	10.088	(16.220)	(6.132)

7.6. The £126.091m general fund technical accounting adjustments in the above table consist primarily of the following areas:

- £70m adjustment on Business Rates to account for timing differences
- (£49m) neutralisation of depreciation and revaluation movements on the Council's operational and investment properties
- £95m of capital grants transferred to the Capital Grants Reserves prior to their future use when conditions or restrictions are met. This movement is to ensure capital and revenue income streams are kept separate as per statute
- (£16m) adjustment to the Pension Reserve which neutralises the current service costs and ensures that actuarial estimates are not charged to Council Tax
- £86m Capital Grants & Contribution applied
- (£56m) Revenue Expenditure Funded from Capital Under Statute
- (£20m) movements in investment property values
- £16m various other adjustments

Cash Flow Statement

7.7. There was a £9m decrease in the Council's cash and cash equivalents (that is, investments that mature in no more than three days), falling from £170.302in 2016/17 to £161.238m 2017/18. A summary cash flow can be found in the table below

7.9. There was a net outflow of £415m from the investing activities as the Council used its cash reserves to make short-term investments and for the purchase of PPE. This was offset by £32m capital receipts and £95m capital grants for use by the Council in supporting its City for All capital programme.

Summary Cash Flow Statement

2016/17		Note	2017/18
£'000			**£'000**
44,448	Net surplus/(deficit) on the provision of services		155,561
415,165	Adjustments to net surplus/(deficit) on the provision of services for non-cash movements	Note 31	226,796
(99,259)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	Note 31	(126,636)
360,354	Net Cash Flows from Operating Activities		255,721
(301,547)	Net Cash Flows from Investing Activities	Note 32	(288,750)
(6,085)	Net Cash Flows from Financing Activities	Note 33	23,965
52,722	Net increase/(decrease) in cash and cash equivalents		(9,064)
117,580	Cash and cash equivalents at the beginning of the reporting period		170,302
170,302	**Cash and cash equivalents at the end of the reporting period**		**161,238**

8. PENSIONS

Fund Account

8.1 The value of the Council's Pension Fund increased by £68m over the course of the year, rising from £1.268bn to £1.336bn. The table below summarises the major elements that comprise this net change.

2016/17 £'000		2017/18 £'000
38,715	Members Contributions Directly Paid in	**58,868**
(51,632)	Benefits Paid and Transfers Out	**(57,350)**
(5,052)	Management Expenses	**(5,734)**
9,891	Investment Income	**15,785**
209,356	Investment Returns	**56,708**
201,278		**68,277**

8.2 As part of the deficit recovery plan, increased contributions paid into the Fund have resulted in the Fund returning to a positive cash flow (contributions versus pensions paid) of £1.5m, meaning that investments no longer need to be sold to fund pension payments in the financial year.

8.3 The Fund has seen a sharp rise in investment income of 60%; this is due partly to the pooled property investments generating significant extra distributions to the Fund.

8.4 The Fund has continued to benefit from strong equity markets and a large asset allocation to this area; the total increase in assets available to pay benefits saw a 5.4% increase.

8.5 Management costs have risen by 13.5% in the year, largely due to the increased value of the Fund over the last two years resulting in higher management fees, a transition to the London CIV in the Majedie portfolio and repositioning of the insight fixed income portfolio.

Net Asset Statement and Liability

8.6 The Pension Fund defined benefit obligation has fallen by £99m. This is due to both the fair value of scheme assets rising due to favourable equity market conditions and changes to the financial assumptions. Softening inflation and pension increases reduced the expectation of higher benefits being due in the future.

2016/17 £'000		2017/18 £'000
(2,052,314)	Present Value of Promised Retirement Benefits	**(2,014,651)**
1,274,628	Fair Value of Scheme Assets (bid value)	**1,335,977**
(777,686)	**Net Liability**	**(678,674)**

8.7 An analysis of the £1.365bn net assets shows is shown below:

2016/17 £'000		2017/18 £'000
173,673	Bonds	183,879
150	Equities	150
1,085,348	Pool Investment Vehicles	1,129,276
384	Futures & Forward Foreign Exchange	337
2,499	Income Due	2,790
	Debtors	13,218
1,726	Cash Deposits	10,321
(177)	Investment Liabilities	(229)
(1,710)	Amounts Due for Purchase investments	(9,663)
7,010	Other Current Assets	6,728
(1,204)	Other Current Liabilities	(831)
1,267,699		1,335,976

9. TREASURY

Interest Earnings

9.1 The Interest receivable against budget is shown below:

Budget Item	Actuals £000	Budget £000	Variance £000
1) Treasury Actuals on Agresso (31/03/18)	5,228	2,818	(2,410)
Subtotal Treasury Interest Receivable	5,228	2,818	(2,410)
2)Westminster Community Homes	522	522	0
3)Temporary Accommodation	852	852	0
4) Other	719	719	0
Other interest Items Receivables	2,093	2,093	0
Total	7,321	4,911	(2,410)

9.2 The average yield return for the year was 0.44%, compared with 0.62% for the prior year. This is due to the feeding through of the 0.25% base rate cut in August 2016. Yield expectations are starting to increase again looking forward, with the average return on investments currently 0.56% as at 31 March 2018.

9.3 The interest income earned in absolute terms has increased to £7.3m, significantly overachieving the budget figure of £4.9m. The main reason for this is the significant increase in cash reserves held throughout the year; the final year-end position has seen an increase of £83m on year-end investments from 31 March 2017 to £992.2m.

9.4 The Monetary Policy Committee's decision to raise the Bank of England base rate to 0.50% in November 2017 has also led to gradual increases in the interest rates paid on investments.

9.5 Decisions taken within the approved Treasury Management Strategy to increase the amount available to local authority borrowers in November 2017 have also meant there has been a wider choice of treasury investments and better opportunity to increase yields.

Breakdown of investments

9.6 The breakdown of investments as at 31 March 2018 is shown below:

Investment Type	Investment Balance 31 March 2017 (£m)	Investment Balance 31 March 2018 (£m)	Movement (£m)
Money Market Funds	143.4	129.6	**-13.8**
Notice Accounts	49.3	89.3	**40.0**
Term Deposits	310.0	385.0	**75.0**
Tradable Securities	374.6	336.1	**-38.5**
Enhanced Cash Funds	32.1	52.2	**20.1**
Total:	**909.4**	**992.2**	**82.8**

Interest Payable

9.6 The Interest Payable budget has stayed on target across the year as no new borrowing has been undertaken and the total borrowing for the full year was known at the start of the year.

Borrowing Type	Loans Balance 31 March 2017 (£m)	Loans Balance 31 March 2018 (£m)	Movement (£m)
PWLB	181.04	181.04	-
LOBO	70	70	-
Mortgage Annuity	0.26	0.23	**-0.03**
Total:	**251.30**	**251.27**	**-0.03**

Budget Item	Actuals £000	Budget £000	Variance £000
1) Treasury Actuals on Agresso (31/03/18)	**12,166**	**12,166**	**0**
Subtotal Treasury Interest Receivable	**12,166**	**12,166**	**0**

9.7 The total interest payable is shown below:

10. OBJECTIONS

10.1. All objections relating to prior years have now been cleared and, at the time of writing, no objections have been received by the auditors to the 2017/18 financial statements.

11. CLOSURE OF ACCOUNTS PROCESS AND FINANCE TRANSFORMATION

11.1. The earlier closure of the accounts in 2017/18 continues to derive from the Council's commitment to continual improvement in its financial management. Accelerated closure has given the Council an opportunity to play a primary role in the development of accounting practices that aim to simplify the accounts process and make them more transparent for the public.

11.2. The statutory deadline for publishing the draft accounts for audit has moved in 2017/18 from 30th June to 31st May, meaning that the Council has anticipated and resolved many of the issues that may arise at other authorities as a result of the reduction in the timeframe.

11.3. Further improvements that have taken place in 2017/18 are:

- lessons learned from the 2017/18 closure have been identified, and the frequency of "hard closure" refined to maximise impact.
- further developments in Agresso processes have been simplified, thus reducing the timeframe for producing the Core Statements from the Trial Balance. The technical adjustments involved are quite complex for Local Government and automating this process has allowed more time to be spent reviewing and understanding the underlying data that underpin the statements.
- further improvements in the Quality Assurance process, which have included the establishment of an Accruals Panel in the final month before year-end to provide additional level of scrutiny, not just for the accounts, but primarily to strengthen budgetary control. QA has also continued throughout the accounts process including during the audit period
- external audit planning throughout the year. This has given opportunity to submit some notes to the accounts for early sign-off. Additionally, improved audit planning has allowed schools testing to take place late February/early March and reduce the resources required for the year-end audit.
- further de-cluttering by removal of duplication across the accounts. This work will continue into and beyond 2018/19 to make the accounts as accessible as possible to the public.

11.4 Early closing has allowed the Council to embark on an ambitious programme of taking a lead role in the national development of Local Government accounting regulations. The main aim of this is to collaborate with the Local Government accounting body (CIPFA), the MHCLG and external auditors to simplify technical accounting standards in order to make the accounts more meaningful to the public. This work will be on-going throughout the year and will significantly improve transparency of the financial accounts.

12. EXTERNAL AUDIT

12.1. The accounts will be signed off on 21st June subject to the public inspection period for the accounts, which runs from 8th May to 19th June 2018, in line with the Accounts and Audit Regulations 2015.

13. CERTIFICATION OF CONCLUSION OF AUDIT

13.1. Conclusion of the audit is dependent on a successful end to the public inspection period with no outstanding objections and the completion of the Council's Whole of Government Accounts (WGA) audit.

13.2. It was expected that certification would take place at the point of issue of the audit opinion. However, at the time of writing, the WGA audit has not been completed, pending guidance from the National Audit Office.

13.3. The Council submitted its completed WGA data collection tool (DCT pack) to the auditors on schedule. The delay is from the National Audit Office (NAO), which is yet to issue its 2017/18 Group Auditing Instruction to allow commencement of the WGA audit. There is no confirmed issue date from the NAO at the time of writing.

14. RECOMMENDATIONS

14.1. That the Audit and Performance Committee approve the 2017/18 Annual Accounts, which subject to passing the inspection period, are to be signed off by the auditors.

APPENDICES

Appendix 1	Summary of changes to the financial statements since 23rd April 2018.
Appendix 2	Westminster City Council Letter of Representation 2017/18
Appendix 3	Westminster Pension Fund Letter of Representation 2017/18
Appendix 4	Grant Thornton Audit Findings Report Year ending 31 March 2018
Appendix 5	Grant Thornton Audit Findings Report for City of Westminster Council Pension Fund Year ending 31 March 2018
Appendix 6	Link to the Westminster City Council - Statement of Accounts 2017/18
Appendix 7	Link to the Westminster City Council - Pension Fund Accounts 2017/18

Appendix 1

Changes to the 2017/18 Accounts since 23rd April 2018

Following the Audit and Performance Committee meeting on 23rd April the changes summarised below have been made to the accounts in line with the 2017/18 Audit Findings Report which holds further detail.

- **Overstatement of investment property valuations**

  There has been a reduction of investment property values of £7.998m as the valuations report initially counted a car park twice, as it had been recorded under two names. Further review of the report found this to be a duplication. Additionally, draft valuations were reported in the accounts and these have now been corrected.

  The adjustments were made in both the General Fund (£6.613m) and the HRA (£1.385m) and had no impact on the bottom line of either fund.

- **Capital expenditure financed from revenue resources accounted for as capital grant**

  There was a trivial error of £0.804m between capital grants and services income used to finance capital expenditure. In an attempt to correct this, the opposite entry to the correction was made, thus doubling the error. The mapping change of £1.608m has reversed both errors.

- **Understatement of Property, Plant and Equipment relating to 2016/17 accounts**

  Depreciation written out on revaluation of dwellings and other land and buildings was incorrectly posted, resulting in property, plant and equipment being understated by £36.307m. The revaluation reserve was understated by the same amount. A correction has been made to the 2016/17 figures, with a knock-on effect on the 2017/18 accounts.

In addition to the above technical adjustments which have not impacted the bottom line, a number of disclosures have been amended to make the accounts clearer to users.

Westminster City Council

Westminster City Hall
64 Victoria Street
London SW1E 6QP

020 7641 6000
westminster.gov.uk

City of Westminster

Our Ref LOR1

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

15 June 2018

Dear Sirs

City Of Westminster Council
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of City of Westminster Council and its subsidiary undertakings, Westminster Community Homes Ltd, City West Homes Ltd, WestCo Trading Ltd, Westminster Procurement Services Ltd, Soho Create Ltd, Hub Make Lab Ltd and Paddington Recreation Ground Charity for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the group and parent 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 2017/18 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:

Group Financial Statements

i. We have fulfilled our responsibilities for the preparation of the group and parent 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 2017/18 ("the Code"); in particular the group and parent Council financial statements are fairly presented in accordance therewith.

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

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the group and parent 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 group and parent Council 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. In particular, we confirm that the management assumptions used in making the business rates provision and the valuation of property, plant and equipment and investment properties are reasonable.

vi. We are satisfied that our Investment Properties are valued in accordance with International Accounting Standard 40 and International Financial Reporting Standard 13 and that valuations are at the highest and best use.

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

a there are no unrecorded liabilities, actual or contingent
b none of the assets of the group and parent 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. 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.

ix. 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.

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

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

xii. The group and parent Council financial statements are free of material misstatements, including omissions.

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

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

xv. We believe that the group and parent Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the group and parent Council's needs. We believe that no further disclosures relating to the group and parent Council's ability to continue as a going concern need to be made in the financial statements.

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 parent Council 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
c. unrestricted access to persons within the Council 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 group and parent Council financial statements.

xix. We have disclosed to you the results of our assessment of the risk that the group and parent Council 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 parent Council and involves:

d. management;
e. employees who have significant roles in internal control; or
f. others where the fraud could have a material effect on the group and parent Council financial statements.

xxi. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the group and parent Council's 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 parent 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 group and parent Council financial statements.

Westminster City Council

Westminster City Hall
64 Victoria Street
London SW1E 6QP

020 7641 6000
westminster.gov.uk

City of Westminster

Annual Governance Statement

xxvi 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

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Performance Committee at its meeting on 21st June 2018.

Yours faithfully

Name……………………………………………………………………………………

Position…………………………………………………………………………………...

Date……………………………………………………………………………………....

Name……………………………………………………………………………………

Position…………………………………………………………………………………

Date…………………………………………………………………………………..

Westminster City Council

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64 Victoria Street
London SW1E 6QP

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City of Westminster

Our Ref LOR1

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

15 June 2018

Dear Sirs

City of Westminster Pension Fund
Financial Statements for the year ended 31 March 2018

This representation letter is provided in connection with the audit of the financial statements of City of Westminster Pension Fund (‘the Fund) for the year ended 31 March 2018 for the purpose of expressing an opinion as to whether the Fund 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 2017/18 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 Fund’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 2017/18 ("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 Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the 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. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view.

Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.

vi. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.

vii. Except as disclosed in the financial statements

a there are no unrecorded liabilities, actual or contingent
b none of the assets of the 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 financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. 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 believe that the Fund’s financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund’s needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

Information Provided

xv. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the Fund 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

c. unrestricted access to persons within the Fund from whom you determined it necessary to obtain audit evidence.

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

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

xviii. 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.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund 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.

xx. 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.

xxi. 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.

xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxiii. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

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

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

Westminster City Council

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City of Westminster

Approval

The approval of this letter of representation was minuted by the Council's Audit and Performance Committee at its meeting on 21 June 2018.

Yours faithfully

Name……………………………

Position………………………….

Date……………………………

Name……………………………

Position………………………….

Date……………………………

Signed on behalf of City of Westminster Council as administering body of the City of Westminster Pension Fund

Audit Findings

Year ending 31 March 2018

Westminster City Council

21 June 2018

Contents

Your key Grant Thornton team members are:

Paul Dossett
Partner
T: 020 7728 3180
E: Paul.Dossett@uk.gt.com

Paul Jacklin
Senior Manager
T: 020 7728 3263
E: Paul.J.Jacklin@uk.gt.com

Laurelin Griffiths
Manager
T: 0118 955 9166
E: Laurelin.H.Griffiths@uk.gt.com

Chloe Edwards
In-Charge Auditor
T: 020 7728 3276
E: Chloe.D.Edwards@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key issues 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 2018 for those charged with governance.

Financial Statements	Under the International Standards of Auditing (UK) (ISAs), we are required to report whether, in our opinion: • the group and Council's financial statements give a true and fair view of the group's and Council's financial position and of the group and Council's expenditure and income 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 Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	We received the draft financial statements in advance of our audit visit on 3 April 2018. Our audit work was completed on site during April. Completing the audit in this timeframe reflects very positively on the Council's commitment to timely financial statements. Our findings are summarised on pages 5 to 9. The draft financial statements for the Council for the year ended 31 March 2018 recorded a surplus on the provision of services of £152,681k (£168,132k for the group), and the audited financial statements show a surplus on the provision of services of £155,561k (£150,708k). Non-trivial 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. Subject to receipt of the final, approved letter of representation and approved financial statements, we anticipate issuing an unqualified audit opinion, as detailed in Appendix E, on 21 June following the closure of the period for the exercise of public rights. We have concluded that the other information published with the financial statements, which includes the Statement of Accounts, Annual Governance Statement and Narrative Report, are consistent our knowledge of the Council and with the financial statements we have audited.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, 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. We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on page 12.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • certify the closure of the audit	We have not exercised any of our additional statutory powers or duties. At the time of writing this report, we have not received any objections to the 2017/18 financial statements. Subject to the completion of required procedures on the Whole of Government accounts submission (at the time of writing this report we are awaiting instructions from the NAO), we expect to be able to certify the completion of the audit when we give our audit opinion.

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Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings 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.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 and Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks;
- An evaluation of the components of the group to assess the significance of each component and to determine the planned audit response;
- A review of the methodology used to complete the consolidation, and re-performance of the calculations involved; and
- Targeted audit procedures were required for the following balances relating to City West Homes (CWH) and Westminster Community Homes (WCH):
  - Land and buildings (WCH);
  - Deferred grants (WCH); and
  - Pensions net liability (CWH)

  All other elements of the consolidation had a non-material impact on the group's performance and position. We therefore do not consider that there is a risk of material misstatement in the group financial statements arising from these entities.

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.

Our methodology for the calculation of materiality remains the same as reported in our audit plan. We detail in the table below our assessment of materiality for the financial statements of Westminster City Council and the group.

Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Misstatements below this 'trivial' threshold may not be reported to the Audit and Performance Committee.

We have not set any specific lower materiality limits, but we have reported all misstatements we have identified in cash, related parties and key management personnel remuneration within this report.

	Financial Statement Materiality	Trivial matters
Westminster City Council Single Entity Statements	£20,103k	£1,005k
Group Financial Statements	£20,425k	£1,021k

Conclusion

Subject to receipt of the final, approved letter of representation and approved financial statements, we anticipate issuing an unqualified audit opinion on 21 June (as detailed in Appendix E) following the closure of the period for the exercise of public rights.

The key messages arising from the audit of the financial statements are:

- the Council prepared draft accounts by the first working day of the new financial year;
- officers were responsive to audit requests;
- supporting working papers were of a good standard, although many key working papers were not available at the start of our audit, causing delays to our work.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) 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.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 Westminster City Council, mean that all forms of fraud are seen as unacceptable. **Therefore we do not consider this to be a significant risk for Westminster City Council.** **Work performed** We have: • evaluated the Council's accounting policy for recognition of revenues for appropriateness; • performed substantive testing on material revenue streams; and • reviewed unusual significant transactions. **Key findings** Our audit work has not identified any issues in respect of improper revenue recognition.
2	**Management override of controls** 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. The Council faces external scrutiny of its spending, and this could potentially place management under undue pressure in terms of how they report performance. We identified management override of controls as a risk requiring special audit consideration.	**Work performed** We have undertaken the following work in relation to this risk: • gained an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtained a full listing of journal entries, identified and tested unusual and significant journal entries for appropriateness; and • evaluated the rationale for any changes in accounting policies or significant unusual transactions. **Key findings** Our audit work has not identified any issues in respect of management override of controls.

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Significant audit risks

Risks identified in our Audit Plan	Commentary
❸ **Valuation of property, plant and equipment** The Council revalues its land and buildings to ensure that carrying value is not materially different from fair value. The assets are revalued according to the rolling 5-year programme. This represents a significant estimate by management in the financial statements. We identified the valuation of land and buildings revaluations and impairments as a risk requiring special audit consideration.	**Work performed** We have undertaken the following work in relation to this risk: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of any management experts used; • reviewed the basis on which the valuation is carried out and challenged the key assumptions; • reviewed and challenged the information used by the valuer to ensure it is robust and consistent with our understanding; • tested revaluations made during the year to ensure they are input correctly into the Council's asset register and financial statements; and • evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. **Key findings** Testing to date has identified one instance where the Council had incorrectly taken revaluation gains on investment properties to the revaluation reserve, one instance of a property being held in the Council's records twice, and other, smaller valuation issues. This had no impact on the Council's cash position. Further information on this is included on pages 16 and 17. Our audit work has not identified any other issues in respect of the valuation of the Council's property, plant and equipment.
❹ **Valuation of pension fund net liability** The Council's pension fund asset and liability as reflected in its balance sheet represent a significant estimate in the financial statements. We identified the valuation of the pension fund net liability as a risk requiring special audit consideration.	**Work performed** We have undertaken the following work in relation to this risk: • identified the controls put in place by management to ensure that the pension fund liability is not materially misstated. We assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluated the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • gained an understanding of the basis on which the valuation is carried out; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made; and • checked the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary. **Key findings** The Council received an updated IAS 19 valuation report on 16 April 2018, resulting in adjustments to the financial statements. Further detail on these is included on page 16. Our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability.

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Significant audit risks

Risks identified in our Audit Plan	Commentary
5 **Appeals Provision for National Non-Domestic Rates (Business Rates)** The Council's provision for business rates appeals remains 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.	**Work performed** We have undertaken the following work in relation to this risk: • monitored how the appeals process is affecting the Council and any planned changes in the methodology used to calculate the provision; • identified the controls put in place by management to ensure that the appeals provision is not materially misstated; • assessed whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • reviewed the assumptions made by management and the processes in calculating the estimate; • tested the calculation and its agreement to supporting documentation; and • reviewed the disclosures made by the Council in the financial statements. **Key findings** Our audit work has not identified any significant issues in respect of the Council's provision for business rates appeals. The Council has updated the disclosure note to split the movement on provision between additional provisions required in year, amounts used in year and unused amounts reversed. There is no impact on the provision balance of £66m.

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Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
6 **Employee remuneration** Payroll expenditure represents a significant percentage (11%) of the Council's operating expenses. As the payroll expenditure comes from a large number of individual transactions there is a risk that payroll expenditure in the accounts could be understated. We therefore identified completeness of payroll expenses as a risk requiring particular audit attention.	**Work performed** We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gained an understanding of the Council's system for accounting for payroll expenditure and evaluate the design of the associated controls; • agree that payroll costs are complete within the financial statements via review of the reconciliations between the payroll system and the General Ledger; and • undertake a trend analysis and detailed analytics to ensure pay is materially complete. **Key findings** Our audit work has not identified any issues in respect of the completeness of the Council's employee remuneration costs. However, work performed on payroll related disclosure notes has identified some minor classification and disclosure issues that have been corrected. Further detail on these is included on page 18.
7 **Operating expenses** Non-pay expenses on other goods and services also represents a significant percentage (89%) of the Council's operating expenses. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non- pay expenses as a risk requiring particular audit attention:	**Work performed** We have undertaken the following work in relation to this risk: • evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • performed detailed substantive testing on operating expenditure recorded for the financial year; and • tested operating expenditure to ensure cut-off has been correctly applied. **Key findings** Our audit work has not identified any significant issues in respect of the completeness of the Council's operating expenditure costs. Some minor issues were found during our testing of the cut-off of expenditure, which are discussed in Appendix B.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular, revenue from the sale of goods and the provision of services is recognised when the Council transfers goods or completes delivery of a service to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council. Revenue relating to Council Tax and Business Rates is measured at the full amount receivable (net of any impairment losses) as they are non-contractual, non-exchange transactions and there can be no difference between the delivery and payment dates.	The revenue recognition policy is consistent with the Code of Practice on Local Authority Accounting. Following our audit, disclosure of the Council's policy for non-exchange transactions has been added to the Financial Statements. Management have followed the policy in accounting for the Council's revenue streams.	● (Green)
Judgements and estimates	Key judgements and estimates include: – Valuation and useful lives of operational property – Fair value measurement of investment property – Valuation of the pension fund net liability – Accruals of income and expenditure – Provision for NNDR appeals – Recognition of school assets – Preparation of group accounts	Disclosures of critical judgements and assumptions used in Notes 3 and 4 to the Financial Statements are considered to be clear. The policies adopted for material accounting estimates are consistent with the Code of Practice on Local Authority Accounting. Following our audit, disclosures relating to the group boundary and accounting for schools have been amended for clarity. Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.	● (Green)
Other critical policies		We have reviewed the Council's policies against the requirements of the CIPFA Code of Practice. The Council's accounting policies are appropriate and consistent with previous years. Following our audit, additional disclosure has been included in the financial statements where policies were previously omitted. See page 18 onwards for further detail.	● (Green)

Assessment
- ● Marginal accounting policy which could potentially be open to challenge by regulators
- ● Accounting policy appropriate but scope for improved disclosure
- ● Accounting policy appropriate and disclosures sufficient

Other communication requirements

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	Commentary
1	**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 other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We have completed a review of the Council's register of interests, and registers of gifts and hospitalities. We have discussed management's processes for maintaining and reviewing these registers. We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant instances of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A standard letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the Audit and Performance Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for the business rates appeals provision, and the valuation of property, plant and equipment and investment properties.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to banks and investment and debt counterparties. This permission was granted and the requests were sent. All responses were received, with the help of management chasing the counterparties, with positive confirmation.
6	**Disclosures**	Issues and omissions found during our review are summarised in Appendix C.
7	**Significant difficulties**	No significant difficulties were encountered during the completion of our work.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Statement of Accounts, Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unqualified opinion in this respect – refer to Appendix E.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • 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 • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**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. As the Council is expected to exceed the specified group reporting threshold, we will examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. We plan to complete this work in June following receipt of instructions from the NAO, prior to issuing our auditor's report.
4	**Certification of the closure of the audit**	Subject to the completion of required procedures on the Whole of Government accounts submission above, we expect to be able to certify the completion of the audit when we give our audit opinion.

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Value for Money

Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work for 2017/18 in November 2017. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has proper arrangements in place.

The guidance 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:

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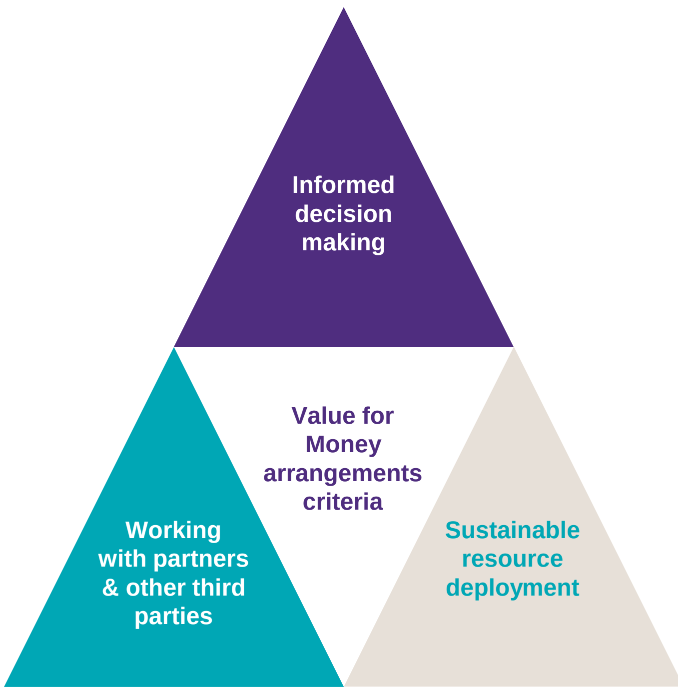

Risk assessment

We carried out an initial risk assessment in January 2018, and identified no significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this to you in our Audit Plan dated 1 February 2018.

We will continue our review of relevant documents up to the date of giving our audit report, and at the time of writing this document have not identified any further significant risks where we need to perform further work.

Our work

We carry out further work only in respect of any significant risks we identify from our ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we will use the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we would report in our VFM conclusion.

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

Overall conclusion

Based on the work we performed, we concluded that the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix E.

The Council has increased its general fund reserves in recent years to £215.5m at 31 March 2018, including earmarked and schools balances. This reflects the S151 Officer's view of the financial risks the Council faces, but is considered a strong position.

The Council has developed a medium term financial plan which covers the period to 2020/21, and has a strong track record of delivering to budget and achieving its savings plans.

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.

Independence and ethics

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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.

Service	£	Threats	Safeguards
Audit related			
Certification of the Teachers Pension Return	3,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,500 in comparison to the total fee for the audit of £185,719 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooled Capital Receipts grant	9,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,000 in comparison to the total fee for the audit of £185,719 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related			
Subscription to CFO Insights	9,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £9,500 in comparison to the total fee for the audit of £185,719 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. 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. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Action plan

Recommendations have been identified 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 2018/19 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.

	Assessment	Issue and risk	Recommendations
1	● (Medium)	Audit work on the valuation of investment properties identified that a small number are included in the financial statements at the wrong value due to differences between versions of the valuer's reports. One adjustment will be made as a result of this, detailed on page 17. We are satisfied that this issue has not resulted in a material misstatement in the financial statements for 2017/18.	Management should ensure that effective version controls are in place for all key inputs into the financial reporting process.
2	● (Medium)	Testing identified that there were balance sheet codes which contained balances that had not moved for a number of years. There is a risk that these balances are no longer valid. We are satisfied that this issue has not resulted in a material misstatement in the financial statements for 2017/18.	A review of all such balances should be performed to ensure that these are still relevant in advance of the Council changing general ledger system.
3	● (Low)	Audit work performed on capital additions in the 2017/18 financial year identified that approximately £3,780k was over-accrued in previous years. These accruals have been de-recognised in 2017/18. We are satisfied that there is not a material misstatement in the 2017/18 financial statements.	Periodic reviews of capital accruals should be performed in order to identify those that are no longer necessary.
4	● (Low)	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. We are satisfied that there is not a material misstatement in the financial statements for 2017/18.	A review of investment properties should be performed each year to ensure that all investment properties are correctly classified.

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

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 2016/17 financial statements, which resulted in a recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented our recommendation.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	WIP	Our sample testing of creditor balances and payments post year end identified items that did not follow guidance. 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 analytical review of the outturn against accruals made as at 31 March 2017 as part of their preparations for closing down the 2017/18 general ledger and to resolve the issues that were identified in the prior year audit. From this exercise, the Council have confirmed that a de-minimis level of £10k is appropriate for year-end accruals to ensure that time is not spent on work which has only a trivial impact on the financial statements. The Council's accruals guidance notes were updated following the review, and were issued to all relevant staff to improve upon the processes from last year. Training was also delivered to budget managers to improve compliance. In addition, a strengthened accruals panel provided extra scrutiny and guidance. Our work on the cut-off of revenues and expenditures at the end of the 2017/18 financial year has found some minor errors. We are satisfied that these are not indicative of a material error in the financial statements and that management have made good progress in addressing the issue found during the previous year's audit work. However, we plan to keep this recommendation under review.

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 in the Council's single entity financial statements

All adjusted misstatements are set out in detail below along with the impact on the Council's key single entity statements and the Council's reported net expenditure for the year.

	Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	At the end of the financial year, the Council reclassified items of Investment Property to Property, Plant and Equipment (PPE). At 31 March 2018, these properties have been valued at Fair Value, with the gain on revaluation being posted to the Revaluation Reserve.		
	The correct treatment would have been to transfer these assets to PPE at Fair Value, recognising any gain up until the date of transfer in the CIES. The assets should then have been valued again at the end of the year as PPE.		
	This has been corrected as follows:		
	Dr Revaluation Reserve		11,026
	Cr Financing and Investment Income	(11,026)	
	This is a technical adjustment, and has no impact on the Council's cash position.		
2	The Council misclassified investments as cash equivalents within the Balance Sheet. This was corrected as follows:		
	Dr Short Term Investments		40,074
	Cr Cash and Cash Equivalents		(40,074)
	These investments matured on 3 April 2018. This amendment also impacted on disclosures in Notes 21, 22 and 37.		
3	In order to provide the audit team with draft financial statements ahead of the commencement of the audit on 3 April 2018, the Council's pension net liability for Westminster City Council and the London Pension Fund authority schemes was valued at £683,955k. The actuary provided the Council with an updated IAS19 report on 16 April 2018, which led to the following correction being made to the primary statements:		
	Dr Total Charge to Comprehensive Income and Expenditure Statement	13,613	
	Cr Pension Fund liability		(13,613)

Impact of adjusted misstatements in the Council's single entity financial statements (continued)

	Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
4	£804k of direct revenue financing was credited to net costs of services when it should be part of taxation and non-specific grant income. In attempting to correct this, the opposite adjustment was made, making the following correction necessary:			
	Dr	Cost of Services	1,608	
	Cr	Taxation and Non-Specific Grant Income	(1,608)	
5	Investment Property valuations included in the draft financial statements were taken from a non-finalised version of the valuer's report. The finalised report contained different valuations, resulting in an overstatement of the valuation of Investment Properties, which has been corrected as follows:			
	Dr	Financing and Investment Income	2,180	
	Cr	Investment Properties		(2,180)
6	An investment property was identified that was contained in the Council's asset registers twice. This has been removed from the financial statements, as follows:			
	Dr	Financing and Investment Income	5,818	
	Cr	Investment Properties		(5,818)
	Overall impact		**£7,998k**	**(£7,998k)**

Our work has also identified the following adjustment relating to the 2016/17 financial year.

	Detail		Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000
1	In the 2016/17 year the depreciation written out revaluation of Property, Plant and Equipment was incorrectly posted to the gross book value of Dwellings and Other Land and Buildings, rather than to the revaluation reserve. This has resulted in the following adjustment to the prior period, which has impacted on the prior year primary statements and PPE disclosure note:			
	Dr	Property, Plant and Equipment		36,607
	Cr	Revaluation Reserve		(36,607)
	An explanation of this adjustment has been included in the prior period adjustment disclosure note to the accounts.			

Impact of other adjusted misstatements in the group financial statements

These adjustments are in addition to the adjustments made to the Council's single entity financial statements, which are consolidated into the group position, a number of other adjustments have been made to the group position.

Detail
The group position in the draft Financial Statements was based on the performance of the other group components at the end of February 2018, as the most up to date financial information available at the time that the financial statements were produced. The position was updated when year-end information was available, and was also corrected for some errors in the formulae within the consolidation schedule. The impact of these adjustments, inclusive of adjustments already detailed for the Council, is a £17,424k decrease in the Group's surplus on provision of services, and a £36,664k decrease in the Group's total comprehensive income.

Misclassification and disclosure changes

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	Council or Group	Detail	Adjusted
Comprehensive Income and Expenditure Statement	Both	During the audit, the Council identified a number of presentational changes within the CIES. None of these changes impact on the Council's overall performance. Notes 5 and 7 which directly relate to figures within the CIES have also been updated to reflect these changes.	✓
Movement in Reserves Statement	Both	Technical inconsistencies were noted between the Council's MIRS and the other single entity primary statements. The MIRS and related notes (Note 16 and Note 29) have been revised to address this. The group MIRS has been revised to incorporate these changes, as well as to update it for the group financial performance and position for the full financial year, in line with the adjustment on the previous page.	✓
Balance Sheet	Council	The Council's draft financial statements did not include a third balance sheet (at 31 March 2016) demonstrating the opening position for the 2016/17 financial year after the inclusion of the prior period adjustment disclosed in Note 38.	✓
Cash Flow Statement	Both	Inconsistencies were noted between the Council's CFS and the other single entity primary statements. The CFS has been revised to address this. Amendments have also been made to supporting disclosure notes (Note 31, Note 32 and Note 33). The group CFS has been revised to incorporate these changes, as well as to update it for the group financial performance and position for the full financial year, in line with the adjustment on the previous page.	✓
Expenditure and Funding Analysis (EFA – Note 8)	Council	In the draft financial statements, the EFA had been prepared including only those movements that related to un-earmarked reserve balances. This was not in line with the requirements of the Code of Practice on Local Authority Accounting, and has been corrected. In addition, the 2016/17 EFA was not consistent with the 2016/17 CIES. Again, this has been amended.	✓

Misclassification and disclosure changes (continued)

Disclosure Reference	Council or Group	Detail	Adjusted
Better Care Fund (Note 9)	Council	The disclosure of the Council's involvement in the Better Care Fund (titled 'Pooled Budgets' in the draft financial statements) has been revised to better reflect the arrangements in place, as a non-pooled agreement, and to enable the user to gain an understanding of the schemes in place and their financial impact on the Council's accounts.	✓
Payroll related disclosures (Note 10)	Council	Minor amendments were made to the narrative, and the classification of balances within the Officers' Remuneration disclosure note. Minor amendments were made to the total value of exit packages in year.	✓
Audit Fee Note (Note 11)	Council	Minor amendments have been made to the audit fee note to include all aspects of fees paid to the external auditor in the year in relation to all services provided.	✓
Property, Plant and Equipment (Note 18)	Council (incorporated into group)	Note 18b has been amended to show that the property held for sale (£40m) was last valued at 31 March 2018, and that Council Dwellings were last valued at 31 March 2017 (the formal valuation date for these assets being 01 April 2017). Disclosures in the Balance Sheet, Note 18 and Note 20 have been amended to make it clear that the asset held for sale is an investment property.	✓
Financial Instruments (Note 21)	Council	Adjustments have been made to the financial instruments disclosures to make them consistent with other areas of the financial statements. Changes have been made to: • the carrying values of cash equivalents and short term investments, per page 16 • the fair value of PWLB borrowing has been revised from £229,227k (PY £237,540k) to £208,482k (PY £214,777k). The Council have previously used the premature redemption rate for this debt as a discount factor, rather than the 'new loan' rate, which is considered more appropriate given the requirements of IFRS 13. This amendment is disclosure only, as these loans are held at amortised cost in the balance sheet. As part of our work on the Fair Values of LOBO loans, we have reviewed the loan agreements and confirmed that there are no unusual terms or conditions.	✓
Nature and Extent of Risk (Note 22)	Council	This disclosure note has been amended to better reflect the risks specific to the Council. In particular, the disclosure of credit quality has been amended to include all relevant balances and be consistent with other Financial Instrument disclosures.	✓
Leases (Note 24)	Council	The disclosure of assets held under finance leases has been amended to reflect the current value as £30,790k. The draft financial statements disclosed this as £33,169k. Minimum lease payments for operating leases in year have been adjusted to £50,227k. In the draft financial statements this was £48,157k.	✓

Misclassification and disclosure changes (continued)

Disclosure Reference	Council or Group	Detail	Adjusted
Provisions (Note 28)	Council (incorporated into group)	The movement on the provision for business rates appeals has been split to show separately the amounts used in 2017/18 (£54,794k) and the additional provision made (£46,394k).	✓
Defined Benefit Pensions (Note 30)	Council (incorporated into group)	Upon receipt of the revised actuarial report on 4 April 2018, as discussed on page 16, a number of disclosure amendments were made regarding the movements in the pension liability and pension assets, and the actuarial assumptions used.	✓
Related Party Transactions (Note 34)	Council	Additional disclosure was added regarding: • the Paddington Recreation Ground Charity, as an entity inside the group boundary • related party transactions which the Council deemed immaterial, but where disclosure is required by the Code of Practice on Local Authority Accounting	✓
Fair Value (Note 37)	Council	Adjustments have been made to the fair value disclosures to make them consistent with other areas of the financial statements. Changes have been made to include the following in the 2017/18 disclosure: • the fair values of available for sale financial assets (£336,102k) • assets held for sale (£40,000k) with corresponding changes made to the reconciliation in Note 37d.	✓
Events After the Reporting Period (Note 39)	Council	This disclosure was omitted from the draft version of the financial statements, but is now included. The Council has confirmed that there are no events to disclose at the time of writing this report.	✓
Schools	Council	The draft financial statements did not contain information to enable the reader to understand the impact of local authority schools on the Council's financial statements. Disclosure has been added to show the number of, and the different categories of, maintained schools.	✓
Various	Both	A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and understandability.	✓

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	£185,719	£185,719
Grant Certification relating to the 2016/17 Housing Benefit subsidy claim	£22,410	£22,410
Objections relating to the 2016/17 Financial Statements	n/a	£7,790
Total audit fees (excluding VAT)	**£208,129**	**£215,919**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA). Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited. Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Note that the grant certification fee included in this table relates to the 2016/17 HB subsidy. The indicative fee set by PSAA for the 2017/18 certification work is £25,386.

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Non Audit Fees

Fees for other services	Fees
Audit related services:	
• Certification of the Teachers Pension Return	£3,500
• Certification of Pooled Capital Receipts grant	£9,000
Non-audit services:	
• Subscription to CFO Insights	£9,500
	£22,000

Audit opinion

We anticipate we will provide the Group with an unmodified audit report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of City of Westminster Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, and the notes to the financial statements, including the accounting policies. 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 2017/18.

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 2018 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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.

Who we are reporting to

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.

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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer 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.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts other than the group and Authority financial statements and our auditor's report thereon, and includes the introduction to the Group Accounts on pages 159 and 160. 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 course of our work including that gained through work in relation to the Authority's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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)' 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.

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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Section 151 Officer 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 29, 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 Section 151 Officer. The Section 151 Officer 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer 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 Section 151 Officer 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 the group or the Authority lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Authority.

The Audit and Performance Committee is Those Charged with Governance.

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 November 2017, 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 2018.

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 November 2017, 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 2018.

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.

[either]

Report on other legal and regulatory requirements

We certify that we have completed the audit of the financial statements of the Authority in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

[or]

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

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 2018. 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 2018.

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Audit Findings

Year ending 31 March 2018

City of Westminster Council Pension Fund

23 April 2018

Contents

Your key Grant Thornton team members are:

Paul Dossett
Partner
T: 020 7728 3180
E: Paul.Dossett@uk.gt.com

Paul Jacklin
Senior Manager
T: 020 7728 3263
E: Paul.J.Jacklin@uk.gt.com

Marc Chang
In-charge Auditor
T: 020 7728 3066
E: Marc.Chang@uk.gt.com

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

Introduction

This table summarises the key issues arising from the statutory audit of City of Westminster Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion: • the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;	We received the draft pension fund financial statements on 1 April 2018. Our audit work was completed on site during the first two weeks in April and we substantially completed our audit testing by13 April 2018. Completing the audit in this timeframe reflects very positively on the Council's commitment to timely financial statements. Our findings are summarised on pages 4 to 12. The set of financial statements provided to us on 1 April 2018 were prepared on investment balances as at 28 February 2018 as per the agreed plan and timelines. Subsequently, the 31 March 2018 balances were made available by the Fund's global custodian on 10 April 2018, again, as per agreed timelines, and adjustments were made to the original draft financial statements. As a result of a material movement, adjustments were made to the investment income and investment valuation in the financial statements that resulted in a decrease of £28.6m to the Fund's reported financial position. Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix A. Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix D, on 15 June 2018 following the closure of the period for the exercise of public rights. The current outstanding items include: - receipt of the management representation letter and; - Final review of the Pension Fund Annual Report.

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Acknowledgements

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

Summary

Overview of the scope of our audit

This Audit Findings 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 and the Audit and Performance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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 Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its systems and controls;
- Testing of the Pensions Administration system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- Obtained an understanding of the City of Westminster Council Pension Fund arrangements in respect of its investments in the London Collective Investment Vehicle.

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 closure of the period for the exercise of public rights, as detailed in Appendix D.

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.

Our assessment of the value of materiality has been adjusted to reflect the revised value of the Pension Fund Net Assets We detail in the table below our assessment of materiality for Westminster City Council Pension Fund.

	Amount (£)
Materiality for the financial statements	13,360,000
Performance materiality	10,020,000
Trivial matters	668,000
Materiality for specific transactions, balances or disclosures	We have not set any specific materiality limits, but we have reported any misstatements we identify in cash, related parties and key management personnel remuneration within this report.

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 commentary

Management's assessment process	Auditor commentary
Management have reviewed the Fund’s funding position and cash flows.	• The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions. • There is no plan by the Ministry of Housing, Communities and Local Government to wind up the City of Westminster Council Pension Scheme. • The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.
Work performed	**Auditor commentary**
Detail audit work performed on management’s assessment	• We have reviewed managements assessment that the financial statements are prepared on a going concern basis. • We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 80%. • The Council have utilised £10m of new capital receipts under the freedoms of the Flexible Capital Receipts regulations to fund the Pension Deficit Recovery Plan • The fund continues to operate as usual.
Concluding comments	**Auditor commentary**
	• We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant audit risks

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption was rebutted as we concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • 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 the City of Westminster Council, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for the City of Westminster Council Pension Fund.
2	**Management override of controls** 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. We identified management override of controls as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • review of entity controls; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions Our audit work has not identified any issues in respect of management override of controls.

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Significant audit risks

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments is incorrect** Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. We identified the valuation of level 3 investments as a risk requiring special audit consideration.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • 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; • considered the competence, expertise and objectivity of any management experts used; and • verified the investment balances to the fund manager and custodian report As the draft financial statements were based on 28 February 2018 balances all types of investment (Levels 1-3) were subsequently updated to reflect the valuation at 31 March 2018. This led to a total decrease of £28.6m to the Fund's reported financial position.

Reasonably possible audit risks

Risks identified in our Audit Plan	Commentary
5 **Contributions** Contributions from employers and employees' represents a significant percentage (75%) of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention	**Auditor commentary** We have undertaken the following work in relation to this risk: • evaluated the Fund's accounting policy for recognition of contributions for appropriateness; • gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls; • tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and • rationalised contributions received with reference to changes in member body payrolls and the number of contributing members to ensure that any unusual trends are satisfactorily explained. Our audit work identified that Augmentation Contributions of £687k had been incorrectly classified as normal contributions. This had no impact on the Fund Account and the Council has made the appropriate adjustment in the amended financial statements.
6 **Pension Benefits Payable** Pension benefits payable represents a significant percentage (83%) of the Fund's expenditure. We identified completeness of pension benefits payable as a risk requiring particular audit attention:	**Auditor commentary** We have undertaken the following work in relation to this risk: • **evaluated** the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls; • tested a sample of individual pensions in payment by reference to member files; and • rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained. Our audit work has not identified any issues in respect of the risk identified.

Reasonably possible audit risks

	Risks identified in our Audit Plan	Commentary
7	**The valuation of Level 2 investments is incorrect** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We identified valuation of level 2 investments as a risk requiring particular audit attention.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • reviewed the reconciliation of information provided by the pension fund's individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; and • we have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. As the draft financial statements were based on 28 February 2018 balances all types of investment (Levels 1-3) were subsequently updated to reflect the valuation at 31 March 2018. This led to a total decrease f £28.6m to the Fund's reported financial position.

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Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

	Significant matter	Commentary
1	Consideration of governance issues at the London Collective Investment Vehicle	The City of Westminster Council Pension Fund has £562 million invested in the London Collective Investment vehicle representing 42% of the Investments balance. The Pension Fund Committee has (meeting of 23 January 2018) has reviewed and commented on the Willis Towers Watson report produced for London LGPS CIV Limited which has highlighted some issues with the governance arrangements at the London CIV. London CIV are currently implementing the recommendations from the report. We are satisfied that the London CIV does not make investment decisions on behalf of the City of Westminster Pension Fund. Transactions such as the purchases and sales of the investments are still undertaken by Baillie Gifford and Majedie (the relevant fund managers). We have obtained direct confirmations from the London CIV on the investments held for City of Westminster Council Pension Fund and reconciled these to independent confirmations provided by the Fund's custodian (Northern Trust). We are satisfied that the valuation of the investments within the London CIV are fairly stated. Council officers review the investment statements produced by the London CIV and the control reports produced by the relevant fund managers. The control reports demonstrate that there are appropriate processes and controls at the fund managers that would prevent and detect any material misstatement in the investment balances. These reports also act as a form of self-governance and review for senior management on the robustness of internal controls operating at the fund managers. We have reviewed all the control reports which all contain unqualified audit opinions. We and are satisfied that there are no exceptions impacting on the valuations of City of Westminster Council Pension fund investments.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Normal contributions, both from the members and from the employer, are accounted for on an accruals basis • Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date. • Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. • Individual transfers into the funs are accounted for when received. • Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements • Distributions from pooled funds are recognised at the date of issue • Interest income is recognised in the fund account as it accrues.	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	(Green)
Judgements and estimates	Key estimates and judgements include : • Valuation of level 3 investments • The assumptions within the IAS26 calculation of the present value of future retirement benefits • The assumptions within the triennial valuation	The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting. The fund increased the disclosures in the judgements, estimates and assumptions within Note 6 to the financial statements to include reference to Level 3 Investments. Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.	(Green)
Other critical policies		We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	(Green)

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Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

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	Commentary
1	**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 other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• We are not aware of any related parties or related party transactions which have not been disclosed.
3	**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.
4	**Written representations**	• A standard letter of representation has been requested from the Pension Fund.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. Requests were returned with positive confirmations of the balances.
6	**Disclosures**	• Our review found no material omissions in the financial statements.
7	**Significant difficulties**	• We have not had any issues with accounts closedown, production of draft accounts or working papers.
8	**Matters on which we report by exception**	• We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on 15 June 2018. We have not yet received the Pension Fund Annual Report.

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Independence and ethics

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

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 Pension Fund. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issue in the audit of Westminster City Councils Pension Fund's 2016/17 financial statements, which resulted in one recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendation

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	✓	The interface between the managed services system and Pensions Administration system did not go live as expected during 2016/17. This means that manual interfaces were performed which are labour intensive. There remains a backlog in processing changes to member data in the pensions administration system due to the service provider not providing correct and timely pension data to the administrator.	• The interface between the managed services system and Pensions Administration system operated throughout 2017/18. Our testing of member data did not identify any issues.

Assessment
✓ Action completed
X Not yet addressed

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

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.

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
1	The Net Value of Investment balances of £1,358,658k within the draft financial statements were as at 28 February 2018. The March 31 2018 balance of £1,330,079k was not available until 10 April 2018 after the submission of the draft financial statements. The same issue also impacted on the Investment Income balance which was amended from £13,120k to £15,785k. The overall impact was a reduction in total net assets of £28,579k. The associated amendments impacted on all the relevant investment disclosure notes in the financial statements.	Dr Profit and loss on disposal of investments and changes in the market value of investments 31,244 Cr Investment Income 2,665	Cr Net Value of Investments 28,579	Decrease of total net assets 28,579
	Overall impact	£28,579	£28,579	£28,579

Audit Adjustments continued

Misclassification and disclosure changes

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 / omission/classification	Detail	Action taken	Adjusted?
Disclosure of Membership data **(Note 1f)**	The membership figures in the draft financial statements were prepared on a report run as at 28/02/2018. Surrey County Council set the report to run on 31/03/2018 - over the bank holiday weekend - and the Fund received this on Tuesday 03/04/2018 after which the draft accounts had already been provided. Therefore, the figures in the draft version are to be changed to reflect the new year-end report.	Management have adjusted note 1f to the financial statements.	✓
Classification of contributions **(Note 7)**	Augmentation Contributions of £687k had been incorrectly classified as normal contributions.	Management have adjusted Note 7 to the financial statements.	✓
Actuarial Present Value of Promised Retirement Benefits **(Note 19)**	The Actuarial Present Value of future retirement benefits at 31 March 2018 per Note 19 to the financial statements was £665,255k. This has been amended due to a revised actuarial report which states £678,674k.	Management have adjusted Note 19 to agree to the revised actuarial report.	✓
Key Management Personnel Remuneration **(Note 23)**	The Post employment benefits balance disclosed in Note 23 of £86k did not agree to the IAS19 actuary report of £83k. As a potentially sensitive note we are disclosing this error despite the small adjustment.	Management have adjusted Note 23 to agree to IAS19 actuary report.	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit or audit related services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£21,000	£21,000
Total audit fees (excluding VAT)	**£21,000**	**£21,000**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the Members of City of Westminster council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of City of Westminster (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2018 and notes to the pension fund financial statements, including a summary of significant accounting policies. 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 2017/18.

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In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; 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 pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

Who we are reporting to

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.

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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about 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 pension fund financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts set out on pages [**xx to xx**], the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund 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.

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work 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 pension fund 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.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)
In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities set out on page(s) x to 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 Section 151 Officer The Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund'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 the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund 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 pension fund financial statements.

Audit opinion

A further description of our responsibilities for the audit of the pension fund 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.

Paul Dossett

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
EC2P 2YU

15 June 2018

grantthornton.co.uk

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