External Audit Plan

Year ending 31 March 2018

Westminster City Council

1st February 2018

Contents

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Westminster City Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Westminster City Council. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- financial statements (including the Annual Governance Statement) that have been prepared by management with the oversight of those charged with governance (the Audit and Performance committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Performance Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Fraud in revenue recognition – This risk has been rebutted for the Council as documented on page 5 • Management override of controls • Valuation of property, plant and equipment • Valuation of the appeals provision for National Non-Domestic Rates (Business Rates) • Valuations of Pension Fund liability We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £20.103m (PY £20.901m), which equates to 1.95% of last year's gross expenditure. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. The threshold below which misstatements are to be considered clearly trivial has been set at £1.005m (PY £1.045m).
Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified no significant VFM risks for this year.
Audit logistics	Our interim visit will take place in February 2018 and our final visit will take place in April 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £185,719 (PY: £185,719) for the Council.
Independence	We have complied with 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

Deep business understanding

Changes to service delivery

Commercialisation

The scale of investment activity, primarily in commercial property, has increased as local authorities seek to maximise income generation. These investments are often discharged through a company, partnership or other investment vehicle.

Local authorities need to ensure that their commercial activities are presented appropriately, in compliance with the CIPFA Code of Practice and statutory framework, such as the Capital Finance Regulations.

Where borrowing to finance these activities, local authorities need to comply with CIPFA's Prudential Code. A new version is due to be published in December 2017.

Devolution

The Cities and Local Government Devolution Act 2016 provides the legal framework for the implementation of devolution deals with combined authorities and other areas.

The recent decision of London Boroughs to pool their business rates receipts is a step towards taking more control of the money raised via business rates and using it in the consideration of the region as a whole.

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Housing Revenue Account (HRA)

DCLG has issued revised guidance on the calculation of the Item 8 Determination for 2017/18, which :

- extends transitional arrangements for reversing impairment charges and revaluation losses on dwelling assets and applies this principle to non-dwelling assets from 2017/18,

- confirms arrangements for charging depreciation to the HRA and permitting revaluation gains that reverse previous impairment and revaluation losses to be adjusted against the HRA.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced other minor changes to the 2017/18 Code which confirm the going concern basis for local authorities, and updates for Leases, Service Concession arrangements and financial instruments.

Key challenges

Financial pressures

Westminster has consistently been in a stronger financial position than most other authorities and this is not expected to change in 2017/18. However pressures are not likely to ease in coming years, particularly as the circumstances surrounding Brexit will start to take shape, and the Council must adapt to the impacts that this has on both grant funding and the local economy.

The Council has historically had sufficient reserves, but this could be impacted by the changes to IFRS 9 going forward where gains and losses from changes in fair value of assets will instead be recognised in surpluses and deficits in the Provision of Services.

Impacts of the Grenfell Tower fire

The Grenfell Tower fire disaster in 2017 has led to the identification of approximately 150 high rise buildings in local authority ownership that have failed fire safety tests. Local authorities are expected to make these buildings fire safe. DCLG are reviewing the current restrictions on the use of the financial resources that prevent local authorities from making essential fire safety upgrades.

The Council has worked closely with the Royal Borough of Kensington and Chelsea (RBKC) in the aftermath of the disaster so has a good understanding of the consequences on the local populations, and on RBKC.

Our response

- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code, revised stock valuation guidance for the HRA and the impact of impairment assessments and the adequacy of provisions in relation to essential work on high rise buildings.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable 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; • 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.
Management over-ride 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. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness; • obtain a full listing of journal entries, identify and test unusual and/or significant journal entries for appropriateness; and • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of property, plant and equipment	The Council revalues its land and buildings according to the rolling 5-year programme. An annual estimate is used to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements.	We will: • review management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • consider the competence, expertise and objectivity of any management experts used; • discuss with the valuer the basis on which the valuation is carried out and challenge the key assumptions; • review and challenge the information used by the valuer to ensure it is robust and consistent with our understanding; • test revaluations made during the year to ensure they are input correctly into the Council's asset register; and • evaluate 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.
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.	We will: • monitor how the appeals process is affecting the Council and any planned changes in the methodology used to calculate the provision; • identify the controls put in place by management to ensure that the appeals provision is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • review assumptions made by management and the processes in calculating the estimate; • test the calculation and its agreement to supporting documentation; and • review the disclosures made by the Council in the financial statements.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 particular audit consideration.	We will: • identify the controls put in place by management to ensure that the pension fund liability is not materially misstated. We will also assess whether these controls were implemented as expected and whether they are sufficient to mitigate the risk of material misstatement; • evaluate the competence, expertise and objectivity of the actuary who carried out your pension fund valuation; • gain an understanding of the basis on which the valuation is carried out; • undertake procedures to confirm the reasonableness of the actuarial assumptions made; and • check the consistency of the pension fund asset and liability and disclosures in notes to the financial statements with the actuarial report from your actuary.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Employee remuneration	Payroll expenditure represents a significant percentage 11% of the Council’s operating expenses. As the payroll expenditure comes from a 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	We will • evaluate the Council's accounting policy for recognition of payroll expenditure for appropriateness; • gain 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 • We are seeking to gain assurances via a trend analysis and detailed analytics to ensure pay is materially complete. If this is not possible we will undertake further substantive testing of a sample of employees.
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:	We will • evaluate the Council's accounting policy for recognition of non-pay expenditure for appropriateness; • gain an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls; • perform detailed substantive testing on operating expenditure recorded for the financial year; and • test operating expenditure to ensure cut-off has been correctly applied.

Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued and consistent with our knowledge of the Council.
- We will read your Narrative Statement and check that it is consistent with the financial statements on which we give an opinion and that the disclosures included in it are in line with the requirements of the CIPFA Code of Practice.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Act and the Code, as and when required, including:
    - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
    - issue of a report in the public interest; and
    - making a written recommendation to the Council, copied to the Secretary of State.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

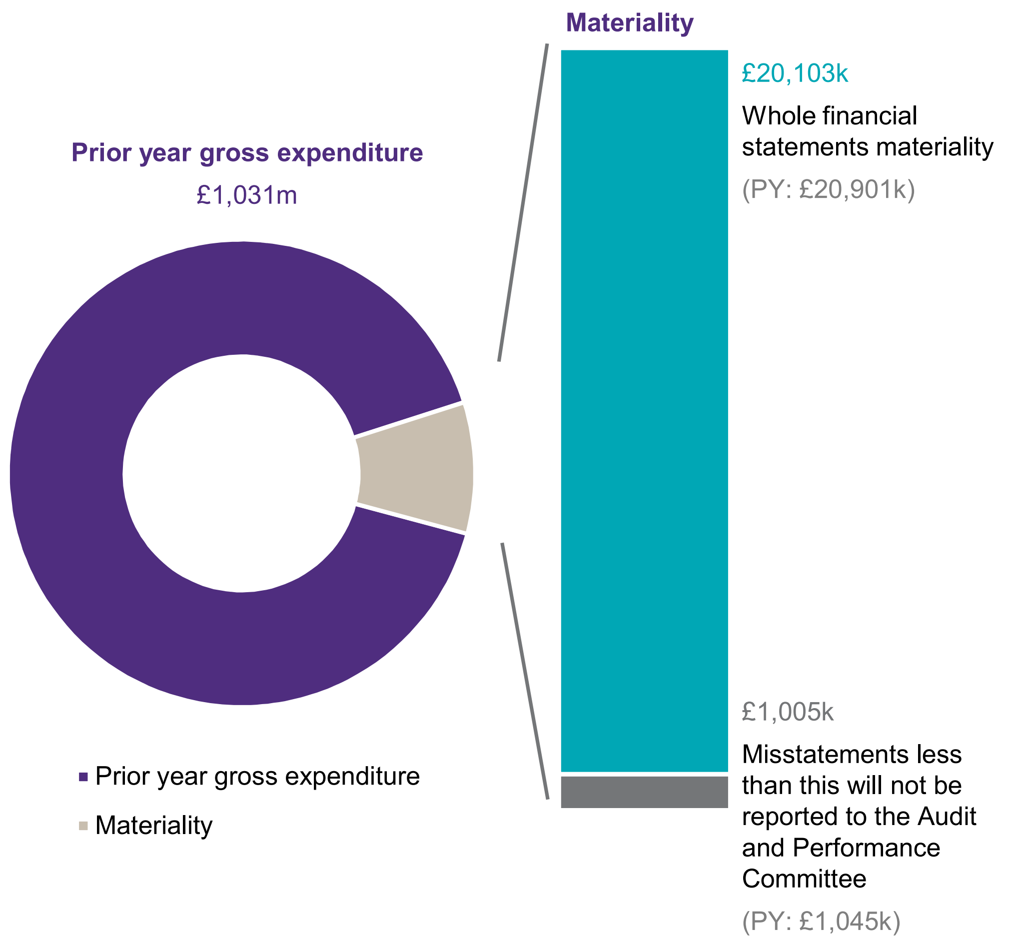
We propose to calculate financial statement materiality based on a proportion of the gross expenditure of the Council for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £20,103k (PY £20,901k), which equates to 1.95% of your prior year gross expenditure. We increased this level from 1.85% in the prior year due to improvement in the general ledger control environment. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

Matters we will report to the Audit and Performance Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Performance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. 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. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1,005k (PY £1,045k).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Performance Committee to assist it in fulfilling its governance responsibilities.



Group audit scope and risk assessment

The Council will be preparing group accounts for the first time for the 2017/18 financial year as elements of the financial statements of CityWest Homes Ltd and Westminster Community Homes Ltd are material to the financial statements of the Council.

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Significant?	Level of response required under ISA (UK and Ireland) 600	Risks identified	Planned audit approach
CityWest Homes Ltd	Yes	Targeted	CityWest Homes constitutes a significant component of the Council's group, and is wholly owned by the Council. Elements of the financial statements of CityWest Homes including the pension liability is material to the financial statements of the Council.	The audit of CityWest Homes is delivered by a separate auditor. We will perform sufficient work to enable us to gain assurance that the Council's group financial statements are not materially misstated.
Westminster Community Homes Ltd	Yes	Targeted	Westminster Community Homes constitutes a significant component of the Council's group, and is controlled by the Council. Elements of the financial statements of Westminster Community Homes including the tangible fixed assets are material to the financial statements of the Council.	The audit of Westminster Community Homes is delivered by a separate auditor. We will perform sufficient work to enable us to gain assurance that the Council's group financial statements are not materially misstated.

Audit scope:
Comprehensive – the component is of such significance to the group as a whole that an audit of the components financial statements is required
Targeted – the component is significant to the Group, audit evidence will be obtained by performing targeted audit procedures rather than a full audit
Analytical – the component is not significant to the Group and audit risks can be addressed sufficiently by applying analytical procedures at the Group level

Value for Money arrangements

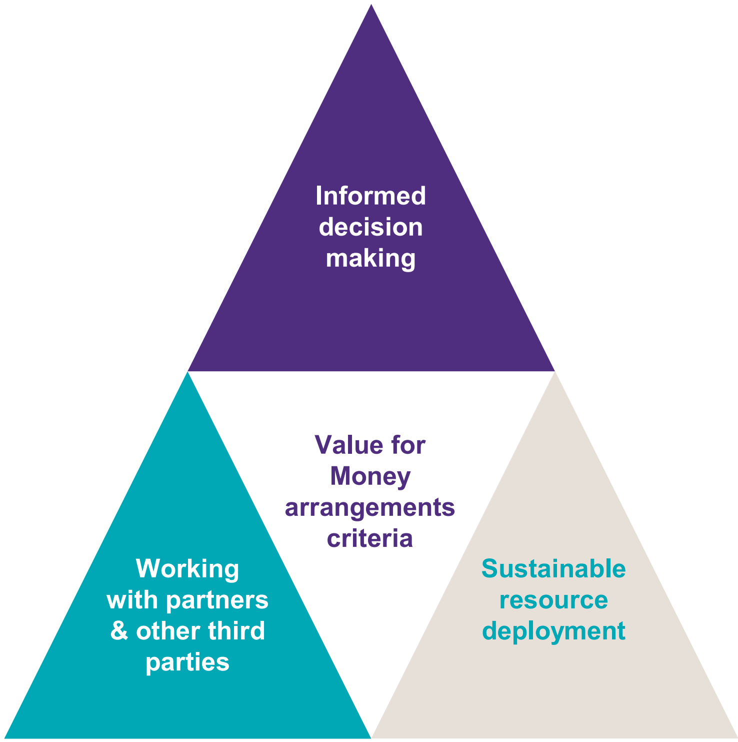
Background to our VFM approach

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:



Significant VFM risks

Those risks requiring specific audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Council to deliver value for money.

We have not identified any significant risks from our initial risk assessment.

We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's report.

Audit logistics, team & audit fees

Paul Dossett, Engagement Lead

Paul will be the main point of contact for the Chief Executive, City Treasurer, Section 151 Officer and Members. Paul will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice, providing pragmatic solutions and acting as a sounding board with Members and the Audit and Performance Committee. Paul will ensure our audit is tailored specifically to you and is delivered efficiently. Paul will review all reports and the team's work.

Paul Jacklin, Senior Manager

Paul will work with the senior members of the finance team ensuring early delivery of testing and agreement of accounting issues on a timely basis. Paul will attend Audit and Performance Committees undertake reviews of the team's work and draft reports ensuring they remain clear, concise and understandable to all. Paul will work with Internal Audit to secure efficiencies and avoid any duplication, providing assurance for your Annual Governance Statement.

Laurelin Griffiths, Assistant Manager

Laurelin will assist Paul in working closely with the senior members of the team to ensure issues are resolved efficiently and that the work is delivered on time. Laurelin will supervise Chloe in leading the on-site team and be a further point of call throughout the audit, reviewing the team's work and delivering the Value for Money conclusion.

Chloe Edwards, In-charge Auditor

Chloe will lead the onsite team and will be the day to day contact for the audit. Chloe will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Chloe will undertake the more technical aspects of the audit, coach the junior members of the team and review the team's work.

Audit fees

The planned audit fees are no less than £185,719 (PY: £185,719) for the financial statements audit. Our fees for grant certification are £22,410 and 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 on the next page, which details non-audit services.

In setting your fee, we have assumed that the scope of the audit, and the Council and its activities, do not significantly change.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we will meet regularly with key members of the finance team to discuss the timing and requirements of our work.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Audit related services

The following services were identified:

Service	Fees £	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 £185,417 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 mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooled Capital Receipts	**TBC**	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 (which will be similar to the Certification of the Teachers Pension Return) in comparison to the total fee for the audit of £185,417 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 mitigate the perceived self-interest threat to an acceptable level.
Non Audit related			
Subscription to CFO insights	**9,500**	None	Not applicable

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. 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.

Appendices

A. Revised ISAs

Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Council's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Council's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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