



City of Westminster

Follow on Agenda

Title: **Audit and Performance Committee**

Meeting Date: **Thursday 2nd May, 2019**

Time: **6.30 pm**

Venue: **Westminster City Hall, 64 Victoria Street, London, SW1E 6QP**

Members: **Councillors:**

Ian Rowley (Chairman)
David Boothroyd
Robert Rigby
Jacqui Wilkinson

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 6.30pm. 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, Andrew Palmer, Senior Committee and Governance Officer.

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Corporate Website: www.westminster.gov.uk**

FOLLOW ON AGENDA

PART 1 (IN PUBLIC)

6 Draft Audit Findings Report 2018-2019

To review the reports from the City Council's external auditors on the key findings arising from their audit of the Council's 2018-19 financial statements (Council and Pension Fund).

(Pages 3 - 36)

**Stuart Love
Chief Executive
26 April 2019**



City of Westminster

Audit & Performance Committee Report

Date:	2 nd May 2019
Classification:	General Release
Title:	Audit Progress and Findings Reports - from Grant Thornton
Wards Affected:	All
Financial Summary:	N/A
Report of:	Gerald Almeroth, Executive Director Finance and Resources

1. Executive Summary

- 1.1 The attached reports from Grant Thornton summarise progress on the main accounts audit and key findings arising from their pensions audit work in relation to the Council's 2018/19 financial statements.

2. Recommendations

- 2.1 That the Committee note the Audit Progress and Finding reports from Grant Thornton.

3. Background, including Policy Context

- 3.1 The Audit Findings and Progress Reports from Grant Thornton are attached for the Committee's consideration.

4. Financial Implications

- 4.1 There are no direct financial obligations arising from this report.

5. Legal Implications

- 6.1 The Committee will formally meet to finalise the accounts on the 17th June 2019. There are therefore no formal legal implications until this time.

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

David Hodgkinson at dhodgkinson@westminster.gov.uk or 0207 641 8162

APPENDICES

1. WCC Audit Progress Report – April 2019
2. WCC Pension Fund – Audit Findings Report 2018-19

Audit Progress Report

Westminster City Council
2018/19
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April 2019



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Section

Audit Progress

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- Significant Risks
- Other Risks
- Group Accounts

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PSAA Contract Monitoring

Westminster City Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, www.psaa.co.uk.

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out our commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

Audit Progress – Our Approach

This Audit Progress Report sets out the work performed to date on the audit of the Council's financial statements, and the observations arising so far that we believe warrant the attention of those charged with governance. Its contents have been discussed with management.

Audit approach

As set out in our Audit Plan, our audit approach was based on a thorough understanding of the Council's (and group's) business and is risk based. In particular, our planned approach includes:

- 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; and
- An evaluation of the components of the group, considering each as a percentage of the group's gross revenue expenditure to assess the significance of each component and to determine an appropriate audit response.

Work completed to date

Our audit of the Pension Fund is substantially complete, and the results of the audit are detailed in the Audit Findings Report presented separately to this Committee.

We completed our work on the transfer of the Council's ledger balances from Agresso to SAP as part of our interim work. See page 6 for more detail.

The Council's audit is not as advanced as we had planned. The finance team experienced delays when preparing the accounts, due to unfamiliarity with the new ledger system, and we did not receive financial statements until 16 April. This has delayed our sampling and testing in a number of areas. We are also finalising our work on the Council's arrangements for securing Value for Money in particular the arrangements in place to manage potential risks associated with Brexit.

We set out further detail in the remainder of this update report. We plan to bring a detailed Audit Findings Report to this Committee in June 2019 once we have finalised our work.

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 headline materiality calculations remain the same as reported in our Audit Plan. We have reduced our performance materiality threshold for the audit of the Council as a result of the issues that the finance team have experienced during the closedown process.

We detail in the table below our determination of materiality:

	Group Amount	Council Amount
Overall materiality for the financial statements	£19.9m	£19.8m
Performance materiality	£13.9m	£12.9m
Trivial matters	£990k	£990k

Audit Progress – Significant Risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. The table below sets out the work we have performed to date to address the significant risks that we identified in our Audit Plan.

We will communicate significant findings in these areas as well as any other significant matters arising from the audit to the Council and Fund in our Audit Findings Report in June 2019.

Risks identified in our Audit Plan

Work performed to date

The risk that revenue 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 Council's and the Fund's revenue streams, we determined that the risk of fraud arising from revenue recognition could 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 Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk.

We have included further information on our work on the Council's revenues on page 7.

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.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals;
- completed detailed testing of journals posted in the Agresso ledger in months 1-8 that we deemed to be unusual, using a risk-based approach;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals; and
- evaluated the Council's rationale for any changes in accounting policies and estimates.

We still need to:

- test those journals recorded during the year that we have deemed unusual (including any posted after the draft accounts stage) for appropriateness and corroboration;
- finalise our understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and
- give due consideration to any significant unusual transactions we find during our audit work.

Our work to date has not identified any issues in respect of management override of controls.

Risks identified in our Audit Plan

Work performed to date

Valuation of land and buildings

The Council revalue land and buildings on an annual basis to ensure that the carrying value is not materially different from the value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.

Management have engaged the services of a valuer to estimate the current values and fair values of their assets as at 31 March 2019.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have undertaken the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- written to the valuer and confirmed the basis on which the valuations were carried out.

We still need to:

- finalise our challenge of the information and assumptions used by the valuer, assessing its completeness and consistency with our understanding of the Council's assets;
- finish our testing of a sample of revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the asset register and financial statements; and
- evaluate the assumptions made by management for any assets that were not revalued at 31 March 2019, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.

The work that we have completed to date has not found any issues with the processes that the valuer has undertaken, however we still have a significant level of work to complete in this area, and a number of queries outstanding with the Council. This may result in adjustments to the accounts as currently presented.

Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have undertaken the following work in relation to this risk:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; and
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.

We still need to:

- finish our procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of PWC as consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report once it is available in May

The Council initially provided us with a disclosure note to audit that was based on an actuarial valuation performed at 28 February 2019. As the movement between this valuation and the final valuation at 31 March 2019 was material, the Council have amended this disclosure to be consistent with the year-end valuation.

Risks identified in our Audit Plan

Work performed to date

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 have undertaken the following work in relation to this risk:

- monitored how the appeals process is affecting the Council and considered any 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, and assessed whether these controls were implemented as expected;
- reviewed the assumptions made by management and the processes used in calculating the estimate;
- tested the Council's calculation and agreed it to relevant supporting documentation; and
- reviewed the disclosures made by the Council in the financial statements.

Our work has not identified any significant issues with the calculation of the appeals provision balance.

Incomplete or inaccurate financial information transferred to the new general ledger

In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.

We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have undertaken the following work in relation to this risk:

- reviewed the Council's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred;
- mapped the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; and
- completed an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.

We are satisfied that the data transfer of balances from Agresso to SAP was accurate and complete.

Audit Progress – Other Work

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, in addition to the risks set out above. These procedures will not be as extensive as the procedures adopted for the significant risks of material misstatement that we have identified.

Work Area

Work performed to date

Income and Expenditure

In order to test the Council's income and expenditure, we split transactions into classes of transactions of different natures. Broadly, this split is as follows:

For expenditure:

payroll costs; schools expenditure; housing benefit expenditure; operating expenditure; and other one-off transactions such as depreciation.

For income:

grant revenues; HRA revenues; collection fund revenues; and other revenues.

We have:

- completed sample testing on housing benefit claims in year;
- completed testing on a sample of operating expenditure, schools expenditure, and other revenues for the first 10 months of the year as part of our interim visits; and
- completed testing of all individually material grants.

We still need to:

- finish our analytical review of the Council's housing benefit expenditure for the year;
- finish our analytical review of the Council's payroll costs, supported by testing of samples of starters and leavers throughout the year;
- finish our analytical reviews of HRA and collection fund revenues, supported by testing of significant reconciling items;
- map transaction listings for the whole year to the CIES, and reconcile these to the populations tested at interim, in order to top-up our sample testing of operating expenses, grant revenues and other income for the full year.

We have found no issues during the work that we have completed so far, but there are a number of areas where significant levels of testing are unfinished.

Property, Plant and Equipment and Investment Property

In addition to the transactions relating to the revaluations of properties, there are other areas of capital where we perform work.

This year we will be performing testing on PPE additions and disposals, and reclassifications of assets, as well as REFCUS transactions.

We have:

- tested a sample of disposals in year and confirmed that these were recognised appropriately.

We still need to:

- finish our testing of capital additions and REFCUS back to supporting documentation provided by the Council;
- gain assurance that assets reclassified between operational properties and investment properties in-year were treated appropriately, through corroborating a sample of these reclassifications; and
- complete an analytical review of the depreciation that the Council has recognised for the year.

We have found no issues during the work that we have completed so far, but there are a number of areas where significant levels of testing are unfinished.

Work Area

Work performed to date

Cash, Cash Equivalents, Investments and Borrowing

These balances are agreed to third party evidence wherever possible, and their classification in the balance sheet is checked for appropriateness.

We have:

- written to all banks and counterparties that the Council held funds with at the end of the financial year; and
- agreed balances outstanding with the PWLB to the information published by the DMO.

We still need to:

- review the Council's year-end bank reconciliation; and
- obtain responses from counterparties who are yet to respond to our requests to corroborate the Council's investment balances.

We have found no issues during the work that we have completed so far. We continue to pursue the outstanding responses from counterparties.

Debtors and Creditors (including receipts in advance)

We perform testing on these balances in order to gain assurance that the debtor and creditor figures included in the balance sheet are reasonable.

We also look to gain assurance that the balances are complete, and that the Council's year-end processes address the risk of material misstatement.

We still need to:

- obtain and review supporting evidence for our selected samples of debtors, creditors and receipts in advance;
- finish our review of the Council's impairment of its debtor balances, taking into account the changes under IFRS 9;
- obtain and review supporting evidence for our selected sample of payments both made and received by the Council after 31 March 2019, to gain assurance that there are no errors arising relating to the cut-off of income or expenditure; and
- obtain and review the Council's own assessment of the adequacy of its accruals processes, based on their formal review of the prior year accruals against their outturn.

Our work to date has primarily consisted of sample selection, and at the time of writing this report we are awaiting supporting information for a number of sample items and queries from the Council.

Provisions and Contingencies

In addition to the provision for NDR appeals discussed above, the Council has other material provisions balances which we will perform testing on.

We will also consider the completeness of both the Council's provisions and contingent liabilities.

We still need to:

- obtain and review supporting calculations and corroborating evidence for our selected sample of provisions included in the financial statements; and
- consider any circumstances relevant to the Council that might mean that items have been omitted from the disclosed provisions and contingent liabilities.

Our work to date has consisted of sample selection, and at the time of writing this report we are awaiting supporting information the selected items.

Work Area**Work performed to date**

Other disclosures and consistency checks

For other disclosures in the financial statements, we ensure that the figures included are consistent with the primary statements and with supporting financial records.

We have:

- obtained and reviewed the Council's supporting records for disclosures relating to remuneration and exit packages, trading operations, pooled budgets, and agency services.

We still need to:

- complete our work on the disclosures relating to the Council's leases and service concessions; and
 - complete our work on the Council's reserves disclosures, where we have noted inconsistencies between the various disclosures in the first draft of the financial statements.
-

Audit Progress – Group Accounts

In accordance with ISA (UK) 600, as your 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. The group audit does not include the Pension Fund.

Group audit approach

At the time of our planning risk assessment, we determined that the Council was the only significant group component, but that the financial statements of both Westminster Community Homes and City West Homes contained balances that had a material impact on the consolidated financial statements.

Since then, City West Homes was absorbed back into the Council.

The valuation of the Property, Plant and Equipment within the financial statements of Westminster Community Homes is a material balance in the consolidated accounts, and we will perform specific procedures on these balances.

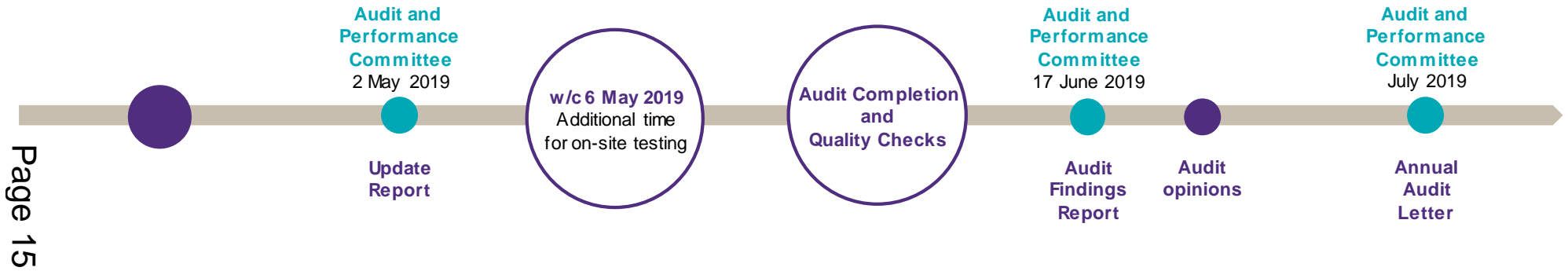
The other entities in the group are not considered significant, and do not give rise to a risk of material misstatement of the group accounts. These transactions and balances will be subject to analytical procedures.

Work completed to date

We have not yet begun our work on the Group accounts, as the Council have yet to provide us with a version that is consistent with the single-entity accounts of Westminster City Council.

We have reviewed the disclosure of the absorption of City West Homes into the Council in the Council's financial statements, with no issues noted.

Next Steps



Local Government audits 2018/19 and beyond

Grant Thornton's External Audit commitment

Audit 2018/19

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Our team

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"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".

Director of Finance, local audited body

Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

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"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."

Director of Finance, County Council

Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

New opportunities and challenges for your community

The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- 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 keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

Grant Thornton in Local Government

Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

The Audit Findings for City of Westminster Council Pension Fund

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2 May 2019



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Section

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3. Independence and ethics

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Appendices

- A. Audit adjustments
- B. Fees
- C. Audit Opinion

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.

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Headlines

This table summarises the key findings and other matters 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 2019 for those charged with governance.

<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and 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:</p> <ul style="list-style-type: none">• 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/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during April 2019. Our findings are summarised on pages 4 to 10. We have identified one adjustment to the financial statements that resulted in a £5.6m increase to the Pension Fund's financial position. As the adjustment is not material, management have decided not to amend the financial statements.</p> <p>Audit adjustments are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware of that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none">- receipt of Additional Voluntary Contributions from providers Aegon and Equitable Life Assurance Society;- receipt direct confirmations of year end asset valuations from Fund Managers (we have used the reports provided to the Council at this stage);- receipt and review of Pension Fund Annual Report;- receipt of the PWC review of IAS19/26 reporting at 31 March 2019;- receipt of management representation letter; and- review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified.</p>
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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 Report 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 auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

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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 IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you at the Audit and Performance Committee on 5 February 2019.

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 Audit and Performance Committee meeting on 17 June 2019, as detailed in Appendix C.

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.

Materiality calculations have been updated to take account of the Net Assets balance in your draft financial statements. We detail in the table below our determination of materiality for City of Westminster Council Pension Fund.

Pension Fund Amount (£)

Materiality for the financial statements	14,100,000
Performance materiality	9,870,000
Trivial matters	705,000
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

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- 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, 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.
- **The** Council has approved at full Council, subject to the revised triennial figures, approval to pay off its entire Pension Fund deficit in April 2020 or an expected £150m. We are satisfied with the approach which has been developed with legal and actuarial advice.

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Work performed

Detail audit work performed on management's assessment

Auditor commentary

- 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 paid £24.5m deficit funding contributions into the pension fund in 2018/19.
- 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 findings

	Risks identified in our Audit Plan	Commentary
1	<p>Improper revenue recognition</p> <p>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.</p>	<p>Auditor commentary</p> <p>Having considered the risk factors set out in ISA240 and the nature of the Pension Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council as the administering authority, mean that all forms of fraud are seen as unacceptable. <p>Therefore we do not consider this to be a significant risk.</p>
2	<p>Management override of controls</p> <p>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 Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Fund.</p>	<p>Auditor commentary</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • review of entity controls; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions <p>Our audit work has not identified any issues in respect of management override of controls.</p>

Significant findings

Risks identified in our Audit Plan

Commentary

- 3 The valuation of Level 3 investments is incorrect**
By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions

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.

Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.

We therefore identified valuation of Level 3 investments as a significant risk.

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;
- independently verified the Hermes Property Unit Trust valuation to independent market data;
- reviewed the custodian independent valuation of Hermes Property Unit Trust;
- considered the competence, expertise and objectivity of any management experts used;
- verified the investment balances to the fund manager and custodian reports; and
- the Pantheon valuation is currently held at cost as per the critical judgement in your accounting policies.

We are satisfied that the valuation of level 3 investments are not materially misstated.

- 4 Incomplete or inaccurate financial information transferred to the new general ledger**

In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.

We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk.

Auditor commentary

We have undertaken the following work in relation to this risk:

- reviewed the Fund's arrangements and controls over the transfer of data from Agresso (legacy ledger) to SAP (new ledger);
- mapped the closing balances from Agresso to the opening balance position SAP to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and
- completed an information technology (IT) environment review to document, and evaluate the IT controls operating within the new general ledger system.

We are satisfied that the data transfer from Agresso to SAP was accurate and complete.

Significant findings

Risks identified in our Audit Plan

5 Valuation of Level 2 Investments

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 therefore identified the valuation of the Fund's Level 2 investments as an other risk

Commentary

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.




The investment balances in the financial statements were based on the custodian's report. The custodian reported the valuation as at month 11 for investments in Standard Life, CQS and LGIM. The month 12 balances were subsequently £5,598k higher than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements.

We are satisfied that the investments are are not materially misstated.

Significant findings - accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> 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 funds 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	<p>Key estimates and judgements include :</p> <ul style="list-style-type: none"> 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 	<p>The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting.</p> <p>Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.</p>	 Green
Other critical policies	<ul style="list-style-type: none"> The Pension Fund has adopted the standard accounting policies as set out in the Code. 	<p>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.</p> <p>We recommended that a disclosure was added to clarify that the Pantheon Investment of £14,403,000 has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated.</p>	 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 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 letter of representation has been requested from the Pension Fund, which will be included in the June 17 Audit and Performance Committee papers.
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. We have received a response from Longview fund managers, but we are still awaiting responses from all other fund managers.
⑥ Disclosures	Our review found no material omissions in the financial statements.
⑦ Audit evidence and explanations/significant difficulties	All information and explanations requested from management was provided.
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 are awaiting the draft Pension Fund Annual report to review.

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 audit and non audit related services were identified.

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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. There were no adjusted misstatements.

Impact of unadjusted 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 ending 31 March 2019.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
1 The financial statements were based on the custodian's report. The custodian reported the month 11 investments in Standard Life, CQS and LGIM. The month 12 balances were £5,598k higher than the balances disclosed in the financial statements.	Credit (Profit) and loss on disposal of investments and changes in the market value of investments 5,598	Debit Investment assets pooled investment vehicles 5,598	Increased total net assets 5,598	The adjustment is not material
Overall impact	£5,598	£5,598	£5,598	

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	Detail	Auditor recommendations	Adjusted?
Disclosure	In note 16 for assets exposed to interest rate risk the value on 1% increase should be £90,110k not £91,269k.	Management have made the required amendment	✓

Fees

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

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	16,170	16,170
Total audit fees (excluding VAT)	£16,170	£16,170

- The fee of £16,170 agrees to the disclosed in the pension fund financial statements

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There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

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. This is a draft version that will be updated.

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 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 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 2018/19.

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 2019 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 2018/19; 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, 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, 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 2018/19, 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
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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June 2019



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