



City of Westminster

Committee Agenda

Title: **Audit and Performance Committee**

Meeting Date: **Monday 31st October, 2022**

Time: **7.00 pm**

Venue: **18th Floor, 64 Victoria Street, London, SW1E 6QP**

Members: **Councillors:**

Aziz Toki (Chair)
Tony Devenish
Paul Fisher
Jessica Toale

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, Artemis Kassi.

**Tel: 07817054991 Email: akassi@westminster.gov.uk
Corporate Website: www.westminster.gov.uk**

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

AGENDA

PART 1 (IN PUBLIC)

4. AUDIT UPDATE ON STATEMENT OF ACCOUNTS

To receive and review an audit update on the Statement of Accounts for the Council. To receive a report by the external auditors, Grant Thornton.

(Pages 3 - 40)

Stuart Love
Chief Executive
24 October 2022



Audit and Performance Committee Report

Date:	31 October 2022
Classification:	General Release
Title:	2021/22 Annual Accounts
Wards Affected:	All
Fairer Westminster Summary	The accounts detail the Council’s financial performance for 2021/22. Further detail regarding the Council’s objectives and governance can be obtained in the Narrative Report and Annual Governance Statement
Financial Summary:	This report presents substantive audit completion of the Statement of Accounts and Pension Fund report for the Council for the financial year ended 31 March 2022 and the external auditor’s reports
Report of:	Gerald Almeroth, Executive Director – Finance & Resources

1. Executive Summary

- 1.1 Since the Audit and Performance Committee reviewed the draft statement of accounts at its meeting on 21 July 2022, the Council’s external auditors Grant Thornton UK LLP have performed their external audit of the Council and Pension Fund accounts.
- 1.2 The audit is substantively complete and is subject to ongoing audit quality review by the Engagement Lead. In addition, Grant Thornton’s internal Quality control team will review the audit work documented on the audit file over the significant audit risks identified in the plan. This is a new stage in the audit process and will provide further audit quality assurance before final sign-off of the accounts.

- 1.3 The Council expects an unqualified opinion on its accounts by the November 2022 national audit sign-off deadline, but this timing is subject to the Department of Levelling Up, Housing and Communities (DLUHC) issuing a statutory override to Local Authority Capital Finance and Accounting Regulations to change reporting requirements on Infrastructure Assets. This is a technical accounting issue that does not impact the Council's "bottom line" but remains a national issue leading to significant delays to final opinions being issued. At the time of writing, this statutory override is expected to pass through Parliament in December 2022.
- 1.4 A further aspect of the audit, the Value for Money audit, is underway and is expected to conclude in December 2022. This report, plus the final External Audit Annual Findings Report (ISA requirement, to report to those charged with governance) will be presented to Audit and Performance Committee in January 2023.

2. Recommendations

- 2.1 That Audit and Performance Committee considers the interim findings outlined in Grant Thornton's Audit Progress Reports of both the Council's Statement of Accounts and Pension Fund report (Appendices 1 and 2);
- 2.2 That Audit and Performance Committee notes the key changes as set out in paragraph 5.2 of this report that will be reflected in the final set of accounts to be approved by the Committee at a later date;
- 2.3 That Audit and Performance Committee delegates authority to the Executive Director of Finance and Resources for any technical accounting adjustments to the accounts prior to final publication, taking into account materiality and any impact on the Council's financial outturn and that a final noting item taken to this Committee summarising said changes;
- 2.4 That Audit and Performance Committee delegates authority to the Executive Director of Finance and Resources to make any necessary technical accounting adjustments in respect of Infrastructure Assets accounting following the Parliamentary statutory override expected in December 2022;
- 2.5 That Audit and Performance Committee notes that the Value for Money assessment be approved by the Committee at a later date;

3. Background

- 3.1 The Accounts and Audit (Amendment) Regulations 2021 state that the draft accounts must be published by 31 July 2022.

- 3.2 The challenges facing the audit sector are well documented and continue to create a significant burden on both auditors and finance staff. The number of English authorities having their 2020/21 accounts signed off by the November 2021 deadline was just 9% and, due to the emerging Infrastructure Assets issue (see section 6 of this report), this figure could well be lower for the 2021/22 accounts.
- 3.3 In December 2021, DLUHC extended the audit completion date for the 2021/22 accounts to 30 November 2022 as part of a package of measures to support the improved timeliness of local audit.

4. Audit Progress to date

- 4.1 The Audit and Performance Committee approved the Council's draft accounts on 21 July 2022. The public inspection period covered 14 July to 24 August 2022, upon which no objections were made.
- 4.2 Since then, the Council's external auditor, Grant Thornton, has carried out a detailed audit of the accounts. The audit process is intended to ensure that there are no material misstatements in the accounts and the audit is directed towards forming and expressing an opinion about the financial statements. Where material misstatements are identified, corrections will be made to accounts before publication on the Council's website.
- 4.4 At the time of writing, the audit team has substantively completed their work. For the first time this year, following a recent review by the Financial Reporting Council, Grant Thornton has included an additional layer of internal quality assurance. Due to the infrastructure override Grant Thornton will not be able to issue an opinion until this is resolved. At this stage, external audit has not identified any matters from the audit work, which would result in a qualification of the audit opinion.
- 4.5 Grant Thornton has outlined in its reports that they will complete the Value for Money (VfM) assessment in December which does not affect this October position.
- 4.6 The audit of the Whole of Government will take place when HM Treasury issues its 2021/22 WGA guidance, which is not expected until December 2022. As there were no objections on this year's accounts, final certification can be issued once the VfM and WGA assurance is given.

5. Statement of Accounts

- 5.1 Grant Thornton have published their Audit Progress Reports (main accounts and pension fund) which can be seen in Appendices 1 and 2. Any findings that the auditors make will be reflected in an updated set of accounts.

5.2 Following the audit, the statement of accounts has remained largely unchanged from the July draft position. There have been some key changes identified which are now reflected in the updated accounts:

- **Collection Fund:** The Council has an annual collectable business rates liability of c£2.5bn, the largest in the country by far. Some of the rates payable are subject to appeal for which the authority must make an annual provision. The audit review has led to changes in the appeals provision. The provision is based on the “Check, Challenge and Appeal” system for business rates. On further analysis of the base data the provision was calculated on it was discovered that this excluded “Checks”. This has pushed the Council deeper into its business rates safety net position (i.e. DLUHC underwrites authorities that suffer losses greater than 7.5% of its budgeted baseline position) and therefore is owed a further £14.2m from the Government. This change represents 0.5% of total the annual £2.5bn business rates liability for Westminster and has been passed into earmarked reserves.
- **Pension Upfront Payment:**, A change in accounting treatment was required this year as the pension deficit payments over the last two years were deemed to relate to future benefits. Therefore, they should be transferred to the pension liability on the balance sheet and then amortised over the next 13 years. Where the Council had previously financed £22.7m as an expense in 2020/21 and 2021/22, this should be finance over 13 years. This has resulted in earmarked reserves increasing by £45m. This will be applied to the capital financing reserves to support the Council’s 15-year capital programme. The impact of this is a reduction in the Council’s pension fund liability which will be offset by an annual charge to revenue of £7.9m via the pension reserve.
- **Financial Instruments:** The 2020/21 debtors balance has been restated to include loans to the Council’s subsidiaries, Westminster Housing Investment Ltd and Westminster Community Homes. The loans were previously excluded as they were interpreted to be an interest in an entity within the group and disclosed elsewhere in the accounts. The CIPFA Code is not entirely clear about IFRS9 in respect of loans to group entities and was considered (and audited in 2020/21) outside the scope of IFRS9. It is now considered that interests refer to loans to group entities. They have now been disclosed as financial assets in the Financial Instrument note. The effect is to restate the 2020/21 financial asset position by £33.229m and adjust the draft 2021/22 position by £78.845m. There are purely technical accounting adjustments that do not impact the Council’s “bottom line”.

- 5.3 There are other non-material and presentational changes, including disclosure enhancements, to the accounts but none of these have an impact on the bottom-line position and will be reflected in the final set of audited accounts.

	31-Mar-21			31-Mar-22		
	Long term	Short term	Total	Long term	Short term	Total
Draft Accounts	56,728	82,261	138,989	53,189	101,162	154,351
Adjustments for IFRS 9:						
Westminster Community	8,222		8,222	7,283		7,283
Westminster Housing	24,916		24,916	71,562		71,562
Westminster Hub	91		91	0		0
	33,229	0	33,229	78,845	0	78,845
Post Audit Adjustments	89,957	82,261	172,218	132,034	101,162	233,196

Pension Fund report (Appendix 2)

- 5.4 The Pension Fund Audit Progress Report is outlined within Appendix 2. The Pension Report is also expected to receive an unqualified opinion.

6. Infrastructure Assets

- 6.1 There is a national on-going issue in local government accounting and audit related to infrastructure assets, in particular highways, where a challenge has arisen about how authorities have not been derecognising the asset value of highways that have been replaced.
- 6.2 This issue stems back to 1994 when the concept of Infrastructure Assets was introduced in Local Government accounting. At the time it was deemed too expensive for authorities to maintain accounting records of individual highways records and that this information would provide no substantial value to impact on the decisions which might be made on an operational basis.
- 6.3 This year, the Financial Reporting Council argued that authorities should remove historic spend for material assets when new spend is incurred, going back in some cases to when records began.
- 6.4 This has led to stasis across the audit sector as most authorities do not have records of capital expenditure on individual roads going back to 1994. In order to break this sector-wide impasse, it is expected that Government will issue a statutory override removing, through legislation, the need for authorities to restate their accounts on the basis of what was widely accepted accounting treatment over the decades.
- 6.5 It should be known that this is purely an accounting exercise with no bearing on the actual costs incurred for highways capital expenditure. As such there will be no "bottom line" impact on the Council. However, it is recommended that the s151 officer be given delegated authority to sign off the accounts once this issue is resolved, which is expected in December 2022.

7. Conclusion

- 7.1 Grant Thornton is expecting to issue unqualified opinions on both the main accounts and pension fund, subject to the infrastructure asset override and the conclusion of the external audit, including the points noted in the Audit Progress report presented to Committee.
- 7.2 Final certification will be given once the Value for Money assessment and Whole of Government Accounts are audited.

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

Jake Bacchus jbacchus@westminster.gov.uk

BACKGROUND PAPERS:

Appendix 1: Audit Progress Report (Council) 2021/22

Appendix 2: Audit Progress Report (Pensions) 2021/22

Westminster City Council Audit Progress Report including Interim Findings – Council and Pension Fund

Financial year ending 31 March 2022

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As at 24 October 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC and Chief Constable or all weaknesses in your internal controls. 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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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Westminster City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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 group and Council's financial statements give a true and fair view of the financial position of the group and Council and the group and Council's 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was undertaken remotely during July-October.

Our work is nearing completion in the core elements of the audit and areas that sit outside of Infrastructure assets. At the time of writing there are no matters of which we are aware that would require modification of our audit opinion,

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited (Subject to final review of updated annual report and accounts).

Most of the audit work at the time of writing is in the audit quality review phase. However, we are still working with management on several presentational and disclosure adjustments in the financial statements. The more significant matters identified, discussed and agreed with Management are included in this update. Further matters may be identified as we conclude our audit, which we will agree with management, considering materiality and the impact on the accounts. A complete list of all adjusted and unadjusted differences will be included in our final Audit Findings Report, concluding our audit. This is anticipated to be in January 2023, on resolution of the infrastructure asset accounting, as outlined.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to be in a position to issue our Auditor's Annual Report in December 2022, however, this is subject to the resolution of the national Infrastructure asset issue which we have mentioned in more detail on page 11 of this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Our work is underway and an update is set out in the value for money arrangements section of this report.

1. Headlines

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Auditor's Annual Report in December 2022/January 2023, and our work on the Council's Whole of Government Accounts (WGA) return which will likely take place in December 2022 (depending on when the WGA guidance is finalised and issued to auditors).

Significant Matters

The size and technical complexity of local government accounts in their current form, and the scale of regulatory and audit requirement in respect of those accounts, are significantly greater than they were even 6-7 years ago. In addition, Council finance teams are leaner than they have been historically, in part in response to austerity over the past decade, and capacity is severely constrained, whilst the workload and expectations of finance teams and those preparing accounts is significantly greater than it used to be.

In essence, as much as twice the work is needed from finance teams which now have fewer people involved. Capacity is therefore a significant factor affecting many Councils, and particularly Councils as large and complex as Westminster City Council, which has also been identified by the regulator as having specific areas of higher risk in relation to the levels of Business Rates the Council receives and the size of the NNDR Appeals Provision.

We appreciate the additional level of audit procedures, areas of challenge and detail of review now required adds significant pressure to the finance function which faces a number of other competing pressures. We also note that nationally there are pressures within the Local audit market which reflects these challenges.

In a recent Public Accounts Committee report it was noted the concerns about the timeliness of Local Government reporting, in the context of the Whole of Government Accounts in 2019/20 not being fully published until 26 months after the year end. Through effective partnership working with the finance team, we have made good progress within the context of the above. As at 24 October 2022, our audit work remains in progress and has taken place under a hybrid working arrangement from 15 July to October 2022.

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

2. 2021/22 deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit and Performance Committee setting out our proposed approach in order to give an opinion on the Council's 2021/22 financial statements and the Auditor's Annual Report on the Council's Value for Money arrangements.</p>	March 2022	Complete
<p>Audit Progress Report and Interim Findings</p> <p>Presented at this Committee.</p>	October	Presented at this meeting
<p>Final Audit Findings Report</p> <p>The Audit Findings Report to be reported to the Audit and Performance Committee.</p>	October	This cannot be completed until the Government finishes its consultation on a national issue regarding Infrastructure assets.
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	January 2023	This is due to the fact the statutory override in relation to Infrastructure assets is not expected to be implemented until 25 December 2022.
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	January 2023	Not yet due

3. Financial Statements

Overview of the scope of our audit

This Audit Progress 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 prior to being presented to the Audit Committee.

As auditor 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.

Audit approach

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- An evaluation of the group'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 based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that there were material balances within other entities within the Council's group, on which audit procedures would need to be completed. These procedures were completed by the audit team alongside the audit of the Council.

3. Financial Statements

Conclusion

We have substantially completed our audit of your financial statements. The Key outstanding items include:

- The conclusion of the Government review into the proposed statutory override's in relation to Infrastructure Assets, this is a national issue.
- Completion of detailed testing of Grant sample items.
- Agreement of and finalisation of disclosure and other adjustments to the financial statements.
- Completion of the Grant Thornton audit quality review process.

3. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	Commentary
<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 Authority 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, and in particular journals, management estimates, and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement..</p>	Group and Council	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions. <p>Our work is near completion in this area subject to any further issues or requirements being identified as part of our review process. We can confirm that the outcome of our testing to date, has not identified any issues or instances where journals have been inappropriately processed.</p>

3. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
<p>Valuation of Investment Property</p> <p>The Council revalues its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£463 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of Investment Properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council and Group	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuations were carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding, which will include engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations; and • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register. <p>Our work is near completion and we are reviewing the final responses from the Council's valuer Sanderson Weatherall. To date no significant issues have been identified in our work. However increased audit attention on this area has led to us undertaking a more detailed review in a number of areas which has increased the level of time spent on this area.</p>
<p>Valuation of Land and Buildings and Council Dwellings (Rolling Revaluation)</p> <p>The Council revalue its land and buildings and Council Dwellings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority and group financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p>We therefore identified valuation of land and buildings and council dwellings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.</p>	Group and Council	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • write to the valuer to confirm the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own valuer to assess the instruction to the authority's valuer, the authority's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the group's asset register <p>Our work is near completion and we are reviewing the final responses from the Council's valuer Sanderson Weatherall. We have in our work identified issues in relation to assets being incorrectly classified in the Group accounts, however this is simply a disclosure issue and not material to the financial statements.</p>

3. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk Relates to	Commentary
<p>Valuation of Pension Fund Net Liability</p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>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.</p> <p>The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.</p> <p>The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.</p>	Council	<p>We will:</p> <ul style="list-style-type: none"> • update our understanding of the processes and controls put in place by management to ensure that the pension fund net liability is not materially misstated and evaluate the design of the associated controls; • evaluate the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work; • assess the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation; • assess the accuracy and completeness of the information provided by the group to the actuary to estimate the liabilities; • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • obtain assurances from the auditor of the City of Westminster Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the Fund and the fund assets valuation in the Fund's financial statements. <p>Our work on the Pension Fund liability is substantially complete. We are still awaiting the completion of the Pension Fund audit before we can conclude this work. We have identified some disclosure misstatements in the notes. On top of this we have also identified an issue relating to the councils prefunding arrangements and the way this has been treated through the Reserves which per the Council's paper they plan to adjust the General Fund Reserves by £45m. Before completion this work requires its final review following the completion of the Pension Fund Audit.</p> <p>No other issues have been identified.</p>

4. Financial Statements – Additional Areas of focus in 2021/22 – Other Risk Areas

The significant risks identified in our Audit Plan in March remain unchanged. Here we are noting other key areas of focus in this year's audit.

Significant matter	Commentary
Collection Fund Income- Business Rates	<p>Business Rate income is an area of increased audit focus in particularly for Westminster City Council, due to the 1.547 billion of income of Business Rate income within the Collection Fund. This has led to increased audit focus on this area with us undertaking a more detailed substantive analytical procedure, review of reliefs and Income within the Collection Fund.</p> <p>As has been set out in the Council's papers this has been an area where adjustments have been identified to the draft accounts and we are working on finalising our work on these adjustments with the Council.</p>
NNDR Appeals Provision	<p>The Council's Business Rates Appeal Provision is on an absolute and relative terms one of the largest in the country sitting at £339m in the draft accounts, of which 30% is WCC's share - £101.8m. The Appeals Provision reflects a provision against businesses that have launched the Appeals process with the VOA and the potential refunds the Council would have to pay out if they were successful. Due to the size of this provision, this has been a key focus of regulatory attention and we have expanded our procedures on this area, due to it being a key estimate in the financial statements. In undertaking our work we have undertaken the following procedures:</p> <ul style="list-style-type: none"> • Reviewed Management's expert Analyse Local. • Challenged management on the key assumptions used in the Appeals Provision. • Performed a sensitivity analysis and reviewed other industry benchmarks to determine the provisions reasonableness. • Reviewed the accuracy of the data sent to Analyse Local. <p>As has been set out in the Council's papers to this report, changes to this provision have been identified during the course of the audit and our audit review of this restatement remains in progress.</p>
Infrastructure Assets	<p>Infrastructure assets contain a variety of assets including Highway assets, Drainage assets, pavements and lighting. The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. Westminster City Council had material infrastructure assets, at both a gross and net book value basis.</p> <p>There have been issues raised nationally about the records Local Authorities have of such assets and whether they are able to effectively derecognise assets when replacement expenditure takes place. There is therefore a potential risk of material misstatement relates to the infrastructure assets balance. Due to concerns nationally about Local Authority's record keeping for this area there has been a consultation launched about potential changes that could be made to the Code. We are still awaiting the outcome of this consultation.</p>

Significant matter
Commentary

Pension Upfront Payment

The council in year made additional prefunding payments totalling £80m to reduce the future Pension Liability. In terms of the accounting of this within the Balance Sheet and CIES we deem the treatment appropriate. However there are a number of technical statutory accounting adjustments the CIPFA Code requires through the Reserves. In respect of this we identified inconsistencies in the way the Council had treated this balance which has lead to material adjustments in this area. We are still in the process of finalising our review of these adjustments with management.

Financial Instruments

During the 2021/22 financial year the Council has increased the long term Loans provided to its subsidiaries. As part of our audit review it was identified that these should be disclosed as part of the financial instruments note as is required by IFRS9. This has lead to a restatement of this year and the prior year figures within this note. These disclosures were already captured as debtors in the balance sheet at the Draft position and have now been disclosed in the Financial Instruments note.

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5. Materiality



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.

We have revised the performance materiality due to the actual gross expenditure changing from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table to the right our determination of materiality for Westminster City Council Council and group.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements.	15,200,000	15,000,000	Materiality has been based on 1.5% of Gross Operating Expenditure.
Performance materiality	9,890,000	9,750,000	Changed due to a decrease in expenditure in the current year accounts.
Trivial matters	760,000	750,000	Based on 5% of materiality.

We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £20,000 (PY £20,000) for senior officer remuneration.



6. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

6. Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The key areas of focus we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Our VFM work is being completed by our specialist team and is scheduled to take place in October and November.

Our risk assessment procedures regarding the Council's arrangements to secure value for money have not identified any risks of significant weaknesses in arrangements. Our work will focus on the arrangements in each of the following areas:

- Page 23
- Delivery of the planned financial performance in 2021-22, along with the future plans of the Council in 2022-23 and beyond.
 - Delivery, monitoring and management of the Council's capital plans.
 - Procurement matters, within the capital team, and compliance with Council requirements to mitigate against the risk of fraud and corruption.
 - Review of arrangements for registering and reporting members' interests.
 - Review of arrangements for reporting key strategic risks to members.
 - Arrangements to take account of public consultations to inform decision making.
 - Implementation of recommendations arising from the Marble Arch project.
 - Review of the governance arrangements over the Council's subsidiaries.
 - Review of the implementation of arrangements to strengthen contract register and contract performance management process.
 - Review of the Council's Affordable Housing project.
 - Review of the Council's Governance and decision making over Capital projects, including Capital Project procurement arrangements.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Consolidated Financial Statements	Work in progress with high level queries with management.
Journal Entries	Work largely complete in Audit quality review phase.
Expenditure Funding Analysis	In progress with Audit Team.
PPE Opening Balances	In progress with Audit Team, also awaiting outcome of Infrastructure Assets consultation.
PPE Additions	Work completed, no issues identified.
PPE Disposals	Work largely complete in Audit quality review phase.
Depreciation	Work largely complete in Audit quality review phase.
HRA Revaluations	Work largely complete in Audit quality review phase.
PPE OLB Revaluations and Investment Properties	Audit team processing information provided by valuers. Increased regulator focus and requirements in this area has the time taken on this area and number of queries raised, with the Council's external valuer.
PPE Closing Balances	Awaiting outcome of Infrastructure Assets consultation.
Heritage Assets	Work largely complete in Audit quality review phase.
Investments	Work largely complete in Audit quality review phase.
Debtors	Near completion subject to resolving final sample queries.
Cash and Cash Equivalents	Work largely complete in Audit quality review phase.
Creditors	Near completion subject to resolving final sample queries.
Borrowings	Work largely complete in Audit quality review phase.
Provisions	In progress with Audit Team- work ongoing due to significant adjustments to the NNDR Appeals Provision.

Testing Area	Commentary
Leases	Finalising disclosure adjustments to this note with the Council.
Grants Received in Advance	Work ongoing with samples with the Council.
Pension Liability	Work largely complete subject to receipt of the Pension Fund auditors letter and work being complete.
Fees and Charges Income	Work largely complete in Audit quality review phase.
Grant Income	Work ongoing with samples with the Council.
Completeness (income/debtors)	Work largely complete in Audit quality review phase.
Employee Benefit Expenditure and data migration	Work largely complete in Audit quality review phase.
Housing Benefit Expenditure	Work completed, no issues identified.
Other Expenditure	Near completion subject to resolving final sample queries
Completeness (expenditure/creditors)	Work largely complete in Audit quality review phase.
Audit Fees	Work largely complete in Audit quality review phase.
Financial Instruments	Work largely complete in Audit quality review phase.
Remuneration Disclosures	Subject to receiving information from the Payroll team.
Pooled Budgets	In progress with Audit Team.
Capital Disclosures	In progress with Audit Team.
Collection Fund	Awaiting updated statement to complete audit work on this area. In addition debtor samples outstanding for this area.
HRA	Subject to quality reviews.
Going Concern	Near completion but awaiting receipt of entities Cash Flow statement which must cover 12 months after the audit sign off date.

Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Laws and Regulations	Work largely complete in Audit quality review phase.
Litigation and Claims	Work largely complete in Audit quality review phase.
Related Parties	Work largely complete in Audit quality review phase.
Annual Governance Statement	In progress with Audit Team.
Narrative Report	In progress with Audit Team.
Cashflow Statement	Work largely complete in Audit quality review phase.
MiRS and Reserves	Work largely complete in Audit quality review phase.

Key:

Audit Quality Review Phase – work largely complete but undergoing Partner and Audit quality Review process.

Auditor Processing- Audit team has received responses to queries and is performing final quality checks on information received.

Awaiting Receipt – Management are responding to latest audit queries in the coming days.

Appendix B-Audit fees

In 2018, PSAA awarded a contract of audit for Westminster City Council to begin with effect from 2018/19. The fee agreed in the contract was £143,004. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. As in previous years, we are discussing the extent of fee variations for the audit of the current years' financial statements. These discussions are still ongoing and therefore, at this time, we are not able to provide a proposed fee. We will communicate this to you in a future progress report, once it has been agreed with the Corporate Director of Finance and Assets.

Page 26 this year's audit cycle the regulator has raised a number of new areas of focus for us to consider in our work:

An increased focus on Collection Fund Income in particularly for Business rates.

- Greater focus on the NNDR Appeals Provision.
- Increased focus on Infrastructure assets.

This has led to significantly more detailed procedures on the Collection Fund. In this work we have identified with management a number of adjustments. This was in part caused due to changes in staff at the year end which on top of regulatory requirements has led to substantially more work in this area. We are still working with management to determine the changes required in the financial statements for this area.

	2021/22	2022/23
Scale Fee (excluding VAT)	£147,004	£147,004
Proposed Fee (excluding VAT)	£213,004	TBC

Assumptions

In setting the fees, we assume that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we will have regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Appendix B-Certification Fees

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

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 group. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

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Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teacher's Pension	10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total scale fee for the audit of £147,004 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit	36,500	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 £36,500 in comparison to the total scale fee for the audit of £147,004 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Pooling of Housing Capital Receipts	5,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £147,004 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
GLA Compliance Checklist	60,000	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £60,000 in comparison to the total fee for the audit of £147,004 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.



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City of Westminster Pension Fund Audit Progress Report and Interim Findings

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Section

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2. Progress as at 14 October 2022
3. Financial Statements – Significant Risks
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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. 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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1. 2021/22 deliverables

2021/22 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Pension Fund's 2021/22 financial statements. We subsequently issued an Addendum to our Audit Plan in August 2022 to reflect some new risks identified in respect of our planned approach.</p>	March 2022	Complete
<p>Audit Progress Report and Interim Findings</p> <p>Presented at this Committee.</p>	October 2022	Presented at this meeting
<p>Final Audit Findings Report</p> <p>The Audit Findings Report to be reported to the Audit Committee.</p>	January 2023	This will be issued alongside the Main Accounts AFR once the Infrastructure issue is resolved. This is likely to be in January 2023 given the proposed Statutory Override in respect of this area will be issued on 25 December 2022.
<p>Auditors Report</p> <p>This includes the opinion on your financial statements.</p>	January 2023	Not yet due – as above.

2. Progress as at 17th October

This report summarises the progress to date, key findings and other matters arising from the statutory audit of the City of Westminster Pension Fund

Background

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 financial statements:

- give a true and fair view of the financial positions of the Group and Local Authorities, 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.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

The Accounts and Audit Regulations 2015 were amended by SI 2021 No. 263. The Department for Levelling Up, Housing and Communities (DLUHC) previously stated their intention to introduce secondary legislation to extend the deadline for publishing draft accounts to 31 July 2022 and audited local authority accounts to 30 November 2022 for the 2021/22 accounts. This was enacted by the Accounts and Audit (Amendment) Regulations 2022 (SI 2022 No. 708) that came into force on 22 July 2022. Consequently, the deadline for publishing audited local authority accounts for 2021/22 is extended to 30 November 2022 and thereafter changed to 30 September for years up to 2027/28. We received the draft financial statements in advance of this deadline on the 1 June 2022 in line with our agreed timetable with the Council.

Current status

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process, which we note is challenging given the factors noted.

Due to this as at 17th October 2022, our audit work is largely complete and has taken place under a hybrid working arrangement from July 15th to October 2022. The main area that is currently outstanding is our testing of Benefits Payable, on which we experienced some initial challenges that we have been able to overcome and we are just finalising our testing in this area. We are working hard with management to bring the areas that sit outside of this issue to a close by the end of October.

This report pulls together progress to date and emerging issues which we would like to bring to your attention and that have been considered throughout the audit.

As mentioned in the Audit Plan Addendum, we have had to make some changes to our planned audit approach due to the mid-year move of Member Data from Surrey County Council to Hampshire County Council, which will also have a impact on the fees to be charged for this year's audit. This position will also be affected by the additional work needed on Investments due to the absence of triangulation, which we mention in more detail later on in the Report. We will need to discuss and agree these with Management at the end of our engagement before submitting to PSAA for approval.

3. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

As communicated in our Audit Plan, dated 6 June 2022, we initially identified the following Significant Risks in respect of the Pension Fund:

- Presumed risk of fraud in Revenue Recognition (ISA (UK) 240)
- Management override of controls (ISA (UK) 240)
- The valuation of Level 3 investment assets

However, as mentioned earlier in the Report, we issued an Audit Plan Addendum in August 2022 which identified the following additional Significant Risk:

Transfer of data between Member Data Systems

We also identified one other area of focus for our audit, albeit it was not a Significant Risk, which was:

- Change of Actuary by the Council

We also flagged a change in our approach to the testing of Level 2 Investments, due to the absence of triangulation between the Fund Managers and the Custodian in this area.

Aside from this, no additional significant risks have been identified from the testing completed.

4. Financial Statements - matters discussed with management

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

Significant matter	Commentary	Auditor view and management response
Change in Member Data System	<p>In November 2021, the Pension Fund took the decision to transfer its Member Administration from its former provider, Surrey County Council, to a new provider, Hampshire County Council. Hampshire CC already provide services to the Pension Fund, such as its General Ledger under the Tri-Borough Arrangements.</p> <p>This system transfer, which sees the Pension Fund move from Altair to Oracle UPM, requires the transfer of all member records held on the outgoing system, which are key to the calculation of a number of pension tasks, such as the pensions due to members upon retirement.</p> <p>Thus there is a risk that if the data transfer does not facilitate a complete and accurate transfer of data, members could be paid incorrect amounts, or could be given an incorrect status on the new system.</p>	<p>We have completed a range of work over the system transfer, with the support of our IT Audit Team, and we have overall assurance over the completeness and accuracy of the data transfer. However some issues with the IT Environment were identified from the work performed and these will be reported in our Audit Findings Report.</p> <p>We also identified that the services provided by Hampshire CC are not covered by an ISAE3402 Control Report, which provides assurance over the operation of relevant controls during the course of the year. Whilst we have been able to obtain sufficient assurance over this area via alternative procedures, obtaining a report in this area would enable the work to be completed more efficiently next year.</p>
Testing of Investments	<p>As also mentioned in our Audit Plan Addendum, Since the planning stage, we have identified a required change in our audit approach from that we were proposing to take. Normally, a significant element of our assurance over the valuation of the Level 2 Investments included within the Accounts would come from a triangulation exercise between the values included within the Accounts, and those provided independently by the relevant Fund Managers and the Custodian.</p> <p>Following discussions held with the Fund's Custodian, we have confirmed that the Custodian does not independently value any of the Fund's Investments, and that they just take the valuations provided to them by the Fund Managers, which means we do not have sufficient assurance from this exercise. Thus we will need to undertake alternative procedures to gain sufficient assurance over this area.</p>	<p>Again we have been able to obtain sufficient assurance in this area, albeit it has taken longer than previous years due to the need to undertake additional procedures to compensate for the lack of triangulation. These additional procedures include:</p> <ul style="list-style-type: none"> - Detailed testing of purchases and sales in-year back to supporting evidence; - Testing of year end valuations back to independent pricing sources, where available; - The use of indexation to provide assurance over the movement of investments since the date of the Audited Accounts.

5. Materiality



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.

We have revised the performance materiality due to the Net Assets of the Pension Fund increasing from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table to the right our determination of materiality for the City of Westminster Pension Fund.

	Planning Amount (£)	Final Accounts Amount (£)	Qualitative factors considered
Materiality for the financial statements	17,500,000	18,700,000	Materiality has been based on 1% of Net Assets available to pay benefits
Performance materiality	13,100,000	14,025,000	This is set at 75% of overall Materiality
Trivial matters	875,000	935,000	Based on 5% of overall materiality.



Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Journal Entries	Work largely complete, in audit quality review phase.
Going Concern	Work completed, no issues identified.
New System Implementation	Work largely complete, in audit quality review phase. Refer to the previous pages for more detail in this area.
Net Assets Statement Opening Balances	Work completed, no issues identified.
Level 2 Investments	Work largely complete, in audit quality review phase.
Level 3 Investments	Work largely complete, in audit quality review phase.
Cash Deposits	Work completed, no issues identified.
Contributions	Work completed, no issues identified.
Benefits	Work still in progress – testing to be finalised imminently.
Management Expenses	Work largely complete, in audit quality review phase.
Investment Income	Work complete, we have identified that some elements of Income have been accounted for on a cash basis which is not in line with the Code – impact is immaterial.

Testing Area	Commentary
Profit and Loss Disclosures	Work largely complete, in audit quality review phase.
Financial Instruments	Work largely complete, in audit quality review phase. Some minor disclosure amendments have been identified in this area.
Actuarial Disclosures	Work largely complete, in audit quality review phase.
Disclosures – Key Management Personnel	Work largely complete, in audit quality review phase.
Disclosures – Fund Information	Work largely complete, in audit quality review phase. Our testing of Member Data identified a small number of new starters who did not receive the relevant new joiner letter, which will be reported as a control deficiency in the AFR.
Disclosures – Post Balance Sheet Events	Work largely complete, in audit quality review phase.
Disclosures – Investment Notes	Work largely complete, in audit quality review phase.
Contractual Commitments	Work completed, some non-trivial variances identified which will be reported in the AFR.
Laws and Regulations	Work completed, no issues identified.
Litigation and Claims	Work completed, no issues identified.

Appendix A - Progress on Financial Statement work

Testing Area	Commentary
Related Parties	Work completed, no issues identified.
Accounting Estimates	Work completed, no issues identified.
Annual Report	Work yet to be started – this will be completed in advance of the 1 st of December 2022 deadline for publication.

Audit fees

In 2018, PSAA awarded a contract of audit for the City of Westminster Pension Fund to begin with effect from 2018/19. The fee agreed in the contract was £16,170. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021/22 audit.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed on page 13 in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. As in previous years, we are discussing the extent of fee variations for the audit of the current years' financial statements. These discussions are still ongoing and therefore, at this time, we are not able to provide a proposed fee. We will communicate this to you in a future progress report, once it has been agreed with the Corporate Director of Finance and Assets.

As mentioned earlier in the Report, we have had to undertake additional work in the following areas:

- The transfer of Member Data between Surrey CC and Hampshire CC
- The inability to triangulate Level 2 Investments

	2020/21	2021/22
Scale Fee (excluding VAT)	£16,170	£16,170
Proposed Fee (excluding VAT)	£33,000	TBC

Assumptions

In setting the fees, we assume that the Council will:

- prepare a good quality set of financial statements, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we will have regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.



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