



City of Westminster

Follow On Agenda

Title: **Audit and Performance Committee**

Meeting Date: **Monday 24th July, 2023**

Time: **6.30 pm**

Venue: **Rooms 18.01-03, 18th Floor, 64 Victoria Street, London, SW1E 6QP**

Members: **Councillors:**

Aziz Toki (Chair)
Paul Fisher
Jessica Toale
Alan Mendoza

Independent Member:
Mark Maidment



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.

If you require any further information, please contact the Committee Officer, Clare O'Keefe, Lead Policy and Scrutiny Advisor.

**Email: cokeefe@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)

10. EXTERNAL AUDITOR'S AUDIT PLAN

To note the external auditor's plan for completing the audit in order to be presented to the Committee on 28 November 2023.

(Pages 3 - 78)

Stuart Love
Chief Executive
19 July 2023



Audit and Performance Committee Report

Date:	24 July 2023
Classification:	General Release
Title:	External Audit Update
Wards Affected:	All
Financial Summary:	Updates relating to the 2022/23 accounts – Audit Plan and Risk Assessments
Report of:	Gerald Almeroth, Executive Director of Finance and Resources

1. Executive Summary

- 1.1 Grant Thornton UK LLP is presenting a series of reports to the Committee. These reports are:
- Audit Plan for Westminster City Council 2022/23
 - Informing the audit risk assessments for Westminster City Council 2022/23.
- 1.2 Grant Thornton is still reviewing and completing its Pension Fund audit plan and risk assessment. The Council's expectation is that the pension fund audit will be complete by October 2023.

2. Recommendations

- 2.1 That Audit and Performance Committee approves the 2022/23 audit plans for both Westminster City Council.
- 2.2 That Audit and Performance Committee considers the audit risk assessments for both Westminster City Council.
- 2.3 That Audit and Performance Committee notes that Grant Thornton will present the Pension Fund audit plan and risk assessment at the next Committee date.

3. Background

- 3.1 Every year, the Council's external auditors, Grant Thornton, present their audit plan for the upcoming financial accounts audit. This audit plan reviews the accounts from 1 April 2022 to 31 March 2023.
- 3.2 The audit plan outlines the scope of the audit, including the group, any significant risks inherent in the audit, materiality, and value for money arrangements.
- 3.3 Alongside the audit plan sits the audit risk assessments for both sets of accounts. The purpose of these report is to contribute towards the effective two-way communication between Westminster City Council (WCC) external auditors and WCC Audit and Performance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where the auditors are required to make inquiries of the Audit and Performance Committee under auditing standards.
- 3.4 Grant Thornton has deemed the following areas as high risk:
 1. Management override of controls
 2. Valuation of operational land and building including Council dwellings
 3. Valuation of investment properties
 4. Valuation of pension fund net liability
 5. Valuation of Collection Fund appeals provision
- 3.5 Management override of controls is a recurring risk in audits that is tested as outlined in the Audit Plan.
- 3.6 Items 2-5 in paragraph 3.4 are regarded as high risk as Westminster holds high balances in these items. The Council's expectation is that Grant Thornton "front-loads" these risks early in the audit timetable to allow sufficient time to review with their technical teams.

4. Implications

Financial Implications:

- 4.1. Public Sector Audit Appointments Ltd (PSAA) sets the fee scale annually and publishes the scale fee for each individual audited body. If the auditor subsequently considers that additional work is required that is not provided for in the scale fee for an individual body, a fee variation proposal can be submitted to PSAA.
- 4.2. This is set out in the statutory framework for audit fees and variations, in the Local Audit (Appointing Person) Regulations 2015 ('the Regulations'). Regulation 17(2) provides for the auditor to propose to PSAA (as the Appointing Person) that fees should be varied where the work involved in a

particular audit was substantially more or less than envisaged by the appropriate scale.

4.3. The scale fees for 2022/23 accounts are:

- Westminster City Council £231,067
- Pension Fund £TBC

Legal Implications:

4.4. None.

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 Plan for Westminster City Council 2022/23
- Appendix 2: Informing the audit risk assessment for Westminster City Council 2022/23

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Westminster City Council audit plan

Year ended 31 March 2023

Westminster City Council

4 July 2023

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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 Council 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.

Key matters



National context

For the general population, rising inflation rates, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. At a national government level, recent political changes have seen an emphasis on controls on spending, which in turn is placing pressure on public services to manage within limited budgets.

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, higher agency costs costs for temporary staff and increases in supplies and services. Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions and measures like increasing the supply of affordable housing, integrating skills and employment provision, and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling.

Our recent value for money work has highlighted a number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.

Key matters



Audit Reporting Delays

Our 2021/22 work has been delayed due to accounting matters relating to infrastructure assets and IAS 19 pension issues. We do not anticipate that these matters will impact on our 2022/23 planning or delivery of our 2022/23 work.

In a report published in January 2023 the NAO have highlighted that since 2017-18 there has been a significant decline in the number of local government body accounts including an audit opinion published by the deadlines set by government. The NAO outline a number of reasons for this and proposed actions. In our view, it is critical for an early completion of audits that draft local authority accounts are prepared to a high standard and supported by robust working papers.

Grant Thornton has produced a report 'About Time' that explores the reasons for delayed publication of audited local authority accounts. Local authority accounts are becoming increasingly complex as accounting standards evolve and local authorities enter more and more innovative financing arrangements and income generation projects. A significant challenge in managing local audits is the differing needs of various stakeholders. This report concluded that amongst other things, the local government sector, central government and regulators need to agree on the purpose of local audit and find a consensus on improving efficiency in publishing accounts.

Key matters



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, is yet to be agreed with the Authority.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- Where any actions have been agreed in respect of matters identified through previous audit work, either on the financial statements or in respect of work on arrangements to secure VFM, the planning report should include reference to consideration of progress against previously agreed recommendations.
- We will continue to provide you and your Audit and Performance Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our Audit Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We have identified a significant risk in regards to management override of control- refer to page 9

Introduction and headlines

Purpose

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

Respective responsibilities

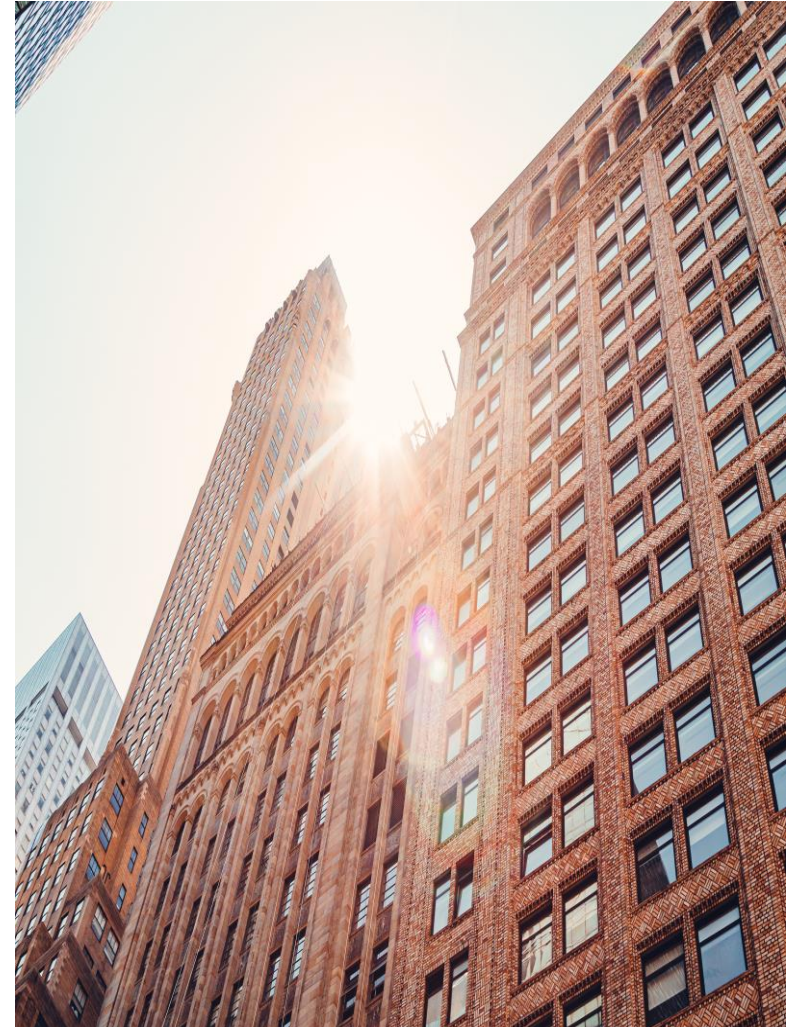
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council Group's financial statements that have been prepared by management with the oversight of those charged with governance the Audit and Performance Committee; and we consider whether there are sufficient arrangements in place at the Council and Group for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of controls
- Valuation of operational land and buildings including Council dwellings*
- Valuation of investment properties
- Valuation of the pension fund net liability
- Valuation of Collection Fund appeals provision

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

*Our audit approach is based on a thorough understanding of the Council's business and is risk based. The significant risks and audit scope are currently draft. There is the possibility these could be amended due to changes in regulation

Group Audit

The Council has the following group entities:

- Westminster City Council
- Westminster Community Homes Limited
- WestCo Trading Limited
- Paddington Recreational Ground Trust
- Westminster Housing Investments Limited
- Westminster Housing Development Limited

The Council consolidates the results and balances of group entities when they are considered material.

Materiality

We have determined planning materiality to be £13.5m (PY £16m) for the group and £13.5m (PY £15.5m) for the Council, which equates to 1.3% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors where applicable.

Clearly trivial has been set at £675,000 (PY £750,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

Introduction and headlines cont.

New Auditing Standards

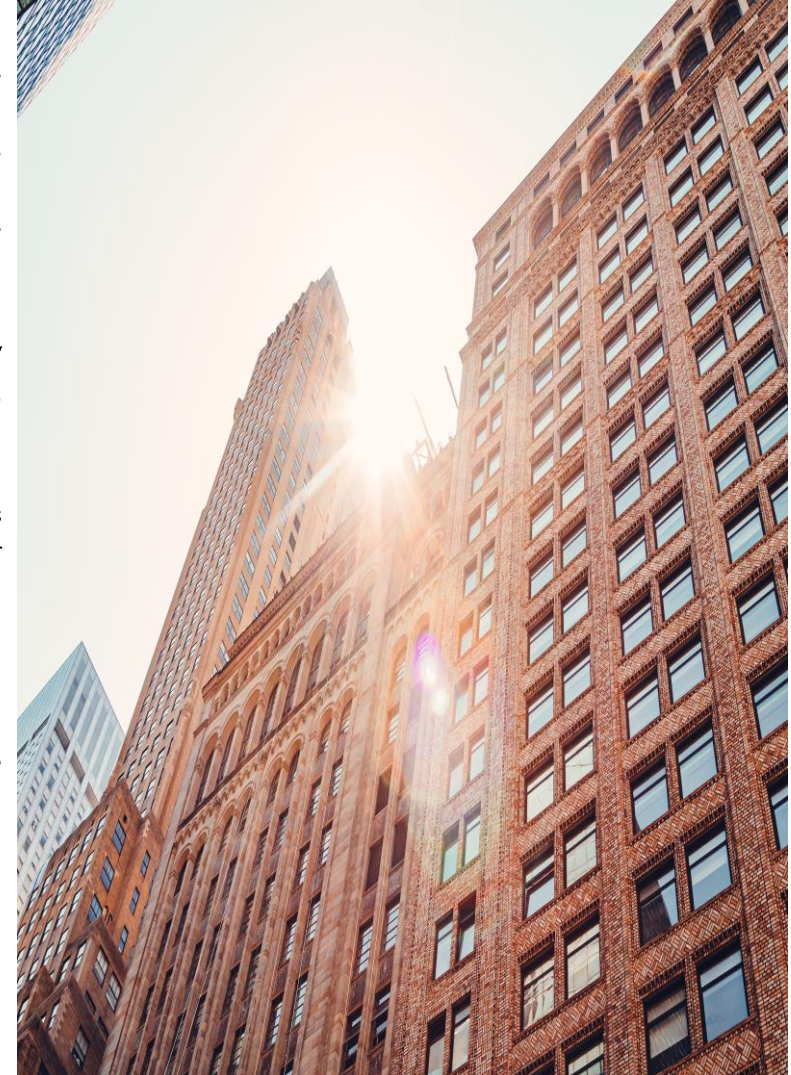
There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Audit logistics

Our interim planning visit took place in June 2023, and our final visit will take place in July to September 2023, we will be continuing to update the risk assessment and planning during this visit also. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £ 231,067 (PY: £213,004) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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.



Significant risks identified

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.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Presumed risk of fraud in revenue recognition ISA (UK) 240	Group and Council	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	<p>Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Westminster City Council, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue 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 public sector bodies, including Westminster City Council, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review.</p>
Risk of fraud related to expenditure recognition PAF Practice Note 10	Group and Council	In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition.	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period). As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk of material misstatements due to fraud related to revenue recognition.</p> <p>Having considered the nature of the expenditure streams of Westminster City Council, and on the same basis as that set out above for revenue, we do not consider this to be a significant risk for the Council at the time of our planning however we will keep this assessment under review.</p>

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls ISA (UK) 240	Group and Council	<p>Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.</p> <p>The Council faces external scrutiny of their 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, 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>	<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; and evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Valuation of the pension fund net liability	Council	<p>The pension fund net liability, as reflected in the 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 (£84.4 million in the Council's balance sheet at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the pension fund net liability as a significant risk.</p>	<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.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings including Council dwellings	Group and Council	<p>The Council revalue its land and buildings on a rolling, five-yearly basis.</p> <p>This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£2,389 million in the Council's balance sheet on 31 March 2023) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Key assumptions and judgements will include managements impairment assessments, valuations based on historic data, valuations of properties that have not been subject to inspection and those assets that have change in use in the year.</p> <p>Management will need to ensure that the carrying value in the Council's (and group's) financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date.</p> <p>We therefore identified valuation of land and buildings, specifically council dwellings, other land and buildings and surplus assets, as a significant risk of material misstatement.</p>	<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 to ensure that the requirements of the Code are met; • challenge the information and assumptions used by the valuer to assess the 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; • focus testing on managements impairment assessment, valuations based on historic data and where no inspections have been undertaken. Testing will also focus on any assets that have had a change in use in the year. • test, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register; and • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.
Valuation of Investment Properties	Council and Group	<p>The Council revalue its Investment Properties on an annual basis to ensure that these assets are held at Fair Value at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£525 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>The key assumption for investment property is the yield rates utilised by the valuer and our testing will therefore focus on this area.</p> <p>Management have engaged the services of a valuer to estimate the current value as at 31 March 2023.</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>	<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; • focus our testing on the yield rates used by the valuer; and • test, on a sample basis, revaluations made during the year to ensure they have been input correctly into the Council's asset register.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Collection Fund Appeals Provision	Group and Council	The Council's Business Rates Appeal Provision is one of the largest in the country. 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 identified as a significant audit risk area and we have expanded our procedures on this area, due to it being a key estimate in the financial statements.	<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 provision is not materially misstated and evaluate the design of the associated relevant controls. • Review Management's expert Analyse Local. • Challenge management on the key assumptions used in the Appeals Provision. • Perform a sensitivity analysis and reviewed other industry benchmarks to determine the provisions reasonableness. • Review the accuracy of the data sent to Analyse Local.

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
Council	Yes		We have identified the following significant risks: <ul style="list-style-type: none"> • Management override of controls • Valuation of operational land and buildings including Council dwellings • Valuation of investment properties • Valuation of the pension fund net liability • Valuation of Collection Fund provision 	Full scope audit performed by Grant Thornton UK LLP.
Westminster Community Homes Limited	No		We have not identified any significant risks of misstatement of the group financial statements; however, the following balances are expected to be material to the group: <ul style="list-style-type: none"> • Land and Buildings • Deferred Grant 	Specific procedures will be completed on these balances by Grant Thornton UK LLP.
Westminster Housing Investments Limited	No		We have not identified any significant risks of misstatement of the group financial statements; however, the following balances are expected to be material to the group: <ul style="list-style-type: none"> • Inventories • Borrowings 	Specific procedures will be completed on these balances by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Group audit scope and risk assessment – cont.

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
WestCo Trading Limited	No		None	Analytical review performed by Grant Thornton UK LLP.
Paddington Recreational Ground Trust	No		None	Analytical review performed by Grant Thornton UK LLP.
Westminster Housing Development Limited	No		None	Analytical review performed by Grant Thornton UK LLP.

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.

We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.

We consider our other duties under legislation and the Code, as and when required, including:

- giving electors the opportunity to raise questions about your 2021/22 financial statements, consider and decide upon any objections received in relation to the 2021/22 financial statements;
- issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
- application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
- issuing an advisory notice under section 29 of the Act

- We certify completion of our audit.

Other material balances and transactions

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

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.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. Materiality at the planning stage of our audit is £13.5m for the group and £13.5m for the Council, which equates to 1.3% of your prior year gross expenditure – cost of services for the period.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <ul style="list-style-type: none"> – We have identified senior officer remuneration as a balance where consider the disclosures to be material by nature.

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.

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.</p>
4	<p>Other communications relating to materiality we will report to the Audit and Performance Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Performance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Audit and Performance Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £675,000 (PY £750,000) for the Group and Council. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Performance Committee to assist it in fulfilling its governance responsibilities.</p>

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 updated the qualitative factors used as a basis to determine materiality based on our preliminary findings from our 2021/22 audit work.

	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	13,500,000	13,500,000	Materiality has been based on 1.3% (2021/22: 1.5%) of Gross Expenditure – cost of services.
Performance Materiality for the financial statements	9,450,000	9,450,000	The performance materiality has been set at 70% (2021/22: 65%) of financial statements materiality. This reflects our risk assessed knowledge of potential for errors occurring. Performance materiality is used for the purposes of assessing the risks of material misstatement and determining the nature, timing, and extent of further audit procedures.

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IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on slide 21.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
SAP	Payroll, Accounts Payable, Accounts Receivable, Ledger and Reporting	<ul style="list-style-type: none"> Streamlined ITGC assessment
Academy	Housing Benefits	<ul style="list-style-type: none"> Streamlined ITGC assessment
Northgate	Council Tax, Business Rates	<ul style="list-style-type: none"> Streamlined ITGC assessment
Orchard	Housing Rents	<ul style="list-style-type: none"> Streamlined ITGC assessment
Civica	Pensions	<ul style="list-style-type: none"> Review work performed by pension fund team

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office –issued its latest Value for Money guidance –to auditors in January 2023 . The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body’s arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

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Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

VFM work will be taken up by our VFM specialists and they review the Council’s arrangements, including reviewing your Annual Governance Statement, before we issue our auditor’s annual report.

We are currently concluding our 2021/22 VFM work. At this stage we do not anticipate any significant weaknesses in 2022/23, but this is subject to concluding our 2021/22 VFM work and performing our 2022/23 VFM planning.

Audit logistics and team



Serena Shariff , Audit In charge

Key audit contact responsible for the day-to-day management and delivery of the audit work. Serena will monitor the query logs with the finance team and highlight any significant issues to management.

Hameem Gulraiz, Manager

Will work closely with senior members of the finance team, ensuring that any issues that arise are addressed on a timely basis.

Gary McLeod, Senior Manager

He will attend Audit and Performance Committee and liaison meetings with senior officers. They will also undertake reviews of the team's work, and ensure that our reports are clear, concise and understandable

Joanne Brown, Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Committees and senior officers.

Audited Entity responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations, we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations, we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

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 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

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Enhanced requirements around understanding the Council's IT Infrastructure, IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.

Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.

- We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for an authority of your size, we estimate an initial increase of £5,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and is yet to be agreed with the Council.

Audit fees

	Actual Fee 2020/21	Estimated Fee 2021/22	Proposed fee 2022/23
Council Audit	£213,004	£220,817*	£231,067
Total audit fees (excluding VAT)	£213,004	£220,817*	£231,067

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Subject to revision upon completion of the 2021/22 audit

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, 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 have had 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.

Audit fees – detailed analysis

New Scale fee published by PSAA 2019	£164,254
Audit of Group Accounts (not included in the Scale Fee)	£5,260
Additional audit procedures arising from a lower materiality	£6,575
Enhanced audit procedures for Property, Plant and Equipment	£5,260
Brought forward ongoing fee from 2019/20	£181,349
<i>New issues for 2020/21</i>	
Additional work on Value for Money (VfM) under new NAO Code	£20,000
Increased audit requirements of revised ISAs 540 / 240 / 700	£6,312
Enhanced audit procedures on journals testing (not included in the Scale Fee)	£3,156
Additional procedures to address other local risk factors	£10,000
Total audit fees 2020/21 (excluding VAT)	£220,817

All variations to the scale fee will need to be approved by PSAA

Audit fees – detailed analysis

<i>New issues for 2021/22</i>	
FRC response - additional review, EQCR or hot review	£1,500
Enhanced audit procedures for Infrastructure	£2,500
Total audit fees 2021/22 (excluding VAT)	£224,817
<i>New issues for 2022/23</i>	
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund- reliefs testing	£750
Increased audit requirements of revised ISAs 315/ 240	£5,000
Total proposed audit fees 2022/23 (excluding VAT)	£231,067

All variations to the scale fee will need to be approved by PSAA

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

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

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	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 fee for the audit of £231,067 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 benefits subsidy	38,250* (indicative)	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 £38,250 in comparison to the total fee for the audit of £231,067 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	7,500	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 £7,500 in comparison to the total fee for the audit of £231,067 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.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings	
Respective responsibilities of auditor and management/those charged with governance	•		ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•		
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•	This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•	
Significant matters in relation to going concern	•	•	We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•	
Views about the qualitative aspects of the Group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a	Respective responsibilities
Significant findings from the audit		•	As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.
Significant matters and issue arising during the audit and written representations that have been sought		•	
Significant difficulties encountered during the audit		•	The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.
Significant deficiencies in internal control identified during the audit		•	
Significant matters arising in connection with related parties		•	
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•	
Non-compliance with laws and regulations		•	
Unadjusted misstatements and material disclosure omissions		•	
Expected modifications to the auditor's report, or emphasis of matter		•	



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Informing the audit risk assessment for Westminster City Council

2022/23

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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 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 your business or any 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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Purpose

The purpose of this report is to contribute towards the effective two-way communication between Westminster City Council's external auditors and Westminster City Council's Audit and Performance Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit and Performance Committee under auditing standards.

Background

Under International Standards on Auditing (UK), (ISA(UK)) auditors have specific responsibilities to communicate with the Audit and Performance Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit and Performance Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit and Performance Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit and Performance Committee and supports the Audit and Performance Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Related Parties,
- Going Concern, and
- Accounting Estimates.

Purpose

This report includes a series of questions on each of these areas and the response we have received from Westminster City Council's management. The Audit and Performance Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2022/23?</p>	<p>Continued high inflation will have impacted on the Council's financial outturn. This will be noted in the Narrative Report</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Westminster City Council?</p> <p>Have there been any events or transactions that may cause you to change or adopt new accounting policies? If so, what are they?</p>	<p>Yes, the reviewed accounting policy document will be sent to GT. IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2024. CIPFA have confirmed that there is no retrospective adjustment required when IFRS 16 is implemented. This means that no prior year comparator is required when the new standard is adopted. Local Authorities have been given till 1st April 2024 to collect their lease data and the new accounting methodology will be implemented in the following years accounts.</p> <p>There is no accountancy impact for IFRS 16 in 22/23.</p>

General Enquiries of Management

Question	Management response
<p>3. Is there any use of financial instruments, including derivatives? If so, please explain</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 43</p>	<p>We currently have investments as fixed term deposits, notice accounts and Money Market Funds.</p> <p>The Council uses a range of financial instruments:</p> <ul style="list-style-type: none"> • Financial assets • FVTPL – the Council is invested in a close-ended pooled property investment – the Real Lettings Fund and holds equity in some of its local authority-controlled companies, principally £80k in WestCo Trading. • Assets at amortised cost: Investments – S/T investments are in overnight deposits and Money Market Funds • Debtors – S/T debtors are trade debtors, L/T debtors are loans to subsidiary companies, some of which are soft loans • Cash and cash equivalents <p>Financial liabilities at amortised cost:</p> <ul style="list-style-type: none"> • Borrowing L/T – mainly PWLB borrowing, borrowing from Barings under a forward rate transaction and 7 LOBOs • Borrowing S/T – temporary borrowing from other local authorities • Creditors – trade creditors • Service concessions <p>We do not invest in derivatives.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business? If so, what are they?</p>	<p>No</p>

General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets? If so, what are they?	No
6. Are you aware of any guarantee contracts? If so, please provide further details	No
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements? If so, please provide further details	We're not aware of any loss contingencies or unasserted claims which may affect the financial statements.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Westminster City Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?	<p>Not on behalf of the Pension Fund.</p> <p>The Hemming case is still active for the Council. Following the decision of the Supreme Court to allow in part the Council's appeal in relation to the recovery of costs through licence fees, the European Court of Justice issued a ruling on matters referred to it by the Supreme Court. The Council is now seeking an Order from the Administrative Court for the return of the sum of approximately £1.4m paid to the claimants</p>

General Enquiries of Management

Question	Management response
<p>9. Have any of the Westminster City Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? If so, please provide further details</p>	<p>There were no reported items of fraud or non-compliance for 2022/23.</p>
<p>10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?</p>	<p>We have our external (RSM) for advisory matters on VAT and SDLT, we have consulted them on</p> <ul style="list-style-type: none"> • Setting up VAT group for Westminster Housing Investments Ltd (WHIL) • Domestic VAT reverse charge
<p>11. Have you considered and identified assets for which expected credit loss provisions may be required under IFRS 9, such as debtors (including loans) and investments? If so, please provide further details</p>	<p>The methodology used to calculate BDP depends on the type of debt. Usually, the method is a combination of looking at the nature of the debt (e.g. whether they are by current or former tenants and the going-concern of a business) and the length of the bad debt (e.g. 50% for debts 6-12 months old and 100% for debts over a year old).</p> <p>There is uncertainty in any estimation. The bad debt calculations are based on the most up to date information we have on outstanding aged debt. The amounts or percentage provided for are based on methodologies which are shown to be reasonable based on historic activity.</p> <p>There are no treasury investments or loans which will require an impairment review.</p> <p>we undertook an assessment of the need for an ECL allowance on the loans to WCH and WHIL – Paper on this sent Hameem Gularaiz.</p>

Fraud

Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit and Performance Committee and management. Management, with the oversight of the Audit and Performance Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit and Performance Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Westminster City Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit and Performance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit and Performance Committee oversees the above processes. We are also required to make inquiries of both management and the Audit and Performance Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Westminster City Council's management.

Fraud risk assessment

Question	Management response
<p>1. Has Westminster City Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p>	<p>Although there is an on-going risk of fraud being committed against the Council, arrangements are in place to prevent and detect fraud. These include work carried out by Internal Audit and the Corporate Anti-Fraud Service on overall fraud risk across the Council.</p> <p>There is on-going communication between external audit and responsible officers on emerging technical issues. Financial monitoring also highlights areas of variance within the capital and revenue budgets, which helps management identify areas of material misstatement within the accounts.</p> <p>The Council maintains a fraud risk register which identifies possible frauds to which the authority is exposed. It estimates both the possible impact of a given fraud and the likelihood of it occurring. The register ensures the organisation better understands the fraud-threat environment in which the authorities have to operate. The register is frequently reviewed to ensure that the risks are being appropriately managed, as well as informing and driving the Pro-active Work Programme enabling the Corporate Anti-Fraud service to focus resources on the most relevant fraud risks.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>Financial assessments for personal budgets, use of direct payments, welfare benefit, cash handling, procurement fraud have been considered as most at risk, however these have not resulted in values of fraud that would be material to the accounts.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Westminster City Council as a whole, or within specific departments since 1 April 2022? If so, please provide details</p>	<p>For the first six months of the financial year 2022/23 (1 April to 30 September 2022) the Corporate Anti-Fraud Service investigated 393 cases, including 131 new referrals, and concluded 186 investigations. This is included in reporting to the Audit and Performance Committee.</p>

Fraud risk assessment

Question	Management response
<p>4. As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>Counter fraud plans, policies and performance are reported to the Audit and Performance Committee who receive reports on internal and external fraud investigated by the Council. This report is intended to brief members of the Committee in respect of work undertaken by the fraud service.</p> <p>Reported to Committee: Audit & Performance Committee – Nov 2022</p>
<p>5. Have you identified any specific fraud risks? If so, please provide details</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Westminster City Council where fraud is more likely to occur?</p>	<p>There are areas within the Council where the inherent risk of fraud will always be higher than other, for example locations handling cash, or more recently fraudulent applications for Covid business grants, but the fraud risk register helps to ensure these areas are reviewed and fraud risks appropriately managed.</p>
<p>6. What processes do Westminster City Council have in place to identify and respond to risks of fraud?</p>	<p>The Council's Anti-Fraud & Corruption Strategy 2020-23 sets out the Council's overall policy on fraud and corruption and states that if fraud, corruption or any misconduct directed against the Council is suspected, this should be reported immediately. The Council's strategy aligns to the national strategy published by the Local Government Association (LGA).</p> <p>The Council maintains a fraud risk register which identifies possible frauds to which the authority is exposed. It estimates both the possible impact of a given fraud and the likelihood of it occurring. The register ensures the organisation better understands the fraud-threat environment in which the authority has to operate.</p> <p>The register is frequently reviewed to ensure that the risks are being appropriately managed, as well as informing and driving the Pro-active Work Programme enabling the Corporate Anti-Fraud service to focus resources on the most relevant fraud risks. The outcome of completed proactive fraud reviews is reported to the Audit and Performance Committee.</p>

Fraud risk assessment

Question	Management response
<p>7. How do you assess the overall control environment for Westminster City Council, including:</p> <ul style="list-style-type: none"> the existence of internal controls, including segregation of duties; and the process for reviewing the effectiveness the system of internal control? <p>If internal controls are not in place or not effective where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)? If so, please provide details</p>	<p>Each year an annual audit plan is developed that takes into account the risks of the Council, including fraud risks. Where there is a significant risk a full review to assess the effectiveness of internal controls is undertaken. Additionally, the Corporate Anti-Fraud Service have developed a work programme combining pro-active investigations and service reviews to assess fraud risks within business units to support management in evaluating fraud controls.</p> <p>The Council's Internal Audit & Corporate Anti-Fraud Service reviews policies, procedures and governance arrangements across the Council's Services and promotes a culture of zero tolerance in respect of fraud, corruption and mismanagement. Fraud awareness training is available to service areas where a need has been identified and a fraud internet page informs staff of emerging fraud risks, encourages fraud reporting and to maintains awareness.</p> <p>This is a risk applicable to all budget managers across the organisation as their performance against budget is often a key factor in their annual performance assessment. However, this is a relatively minor risk and is mitigated by the budget monitoring, schemes of delegation and year end processes, as well as realistic budget setting.</p>
<p>8. Are there any areas where there is potential for misreporting? If so, please provide details</p>	<p>None not already covered elsewhere in our risk assessment responses.</p>

Fraud risk assessment

Question	Management response
<p>9. How does Westminster City Council communicate and encourage ethical behaviours and business processes of its staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud? Have any significant issues been reported? If so, please provide details.</p>	<p>The Council's Internal Audit & Corporate Anti-Fraud Service reviews policies, procedures and governance arrangements across the Council's Services and promotes a culture of zero tolerance in respect of fraud, corruption and mismanagement. Fraud awareness training is available to service areas where a need has been identified and a fraud internet page informs staff of emerging fraud risks, encourages fraud reporting and maintains awareness and includes the various channels for reporting fraud, including the fraud hotline and an online reporting form.</p> <p>Staff are encouraged and, indeed, expected to raise any concern that they may have, without fear of recrimination. Any concerns raised will be treated in the strictest confidence and will be properly investigated. The Council publicises a clear Whistleblowing Policy aimed to encourage those who work for the Council and have serious concerns about any aspect of the Council's work, to come forward and report their concerns at the earliest opportunity; so that they can be properly investigated. The Council also has an independent confidential reporting system called SAFECALL.</p> <p>Since April 2022, the Corporate Anti-Fraud Service has received just one new protected disclosure raising concerns. Following investigation, evidence was obtained that showed there was no case to answer. This information was fed back to the whistleblower and the matter closed.</p> <p>Prospective suppliers and contractors are made aware of the Council's policies and procedures which are relevant to those contracting with the Council and how the Council expects contractors and its staff to behave. This includes policies relating to equality, diversity and inclusion, fraud, corruption and bribery, modern slavery, London Living Wage and a supplier code of conduct.</p>
<p>10. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>	<p>There are no significantly high-risk posts identified, although any managerial or supervisory post with the ability to override controls is a fraud risk and therefore management override is something that is reviewed during audits and pro-active fraud risk assessments.</p>
<p>11. Are you aware of any related party relationships or transactions that could give rise to instances of fraud? If so, please provide details</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	<p>The Council is not aware of any related parties or related party transactions which have not been disclosed. Members and officers are required to make full disclosure of any relationships that impact on their roles. Members are required to declare any relevant interests at Council and Committee meetings.</p>

Fraud risk assessment

Question	Management response
<p>12. What arrangements are in place to report fraud issues and risks to the Audit and Performance Committee ?</p> <p>How does the Audit and Performance Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>The outcomes of internal audit reviews and counter fraud activity is reported to the Audit and Performance Committee together with the details on the implementation of internal audit recommendations. Significant issues are brought to the attention of the Committee who may request management to provide a response on specific issues. Anti-fraud policies including the whistleblowing policy are presented annually to the Audit and Performance Committee for review and approval.</p>
<p>13. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>The Council publicises a clear Whistleblowing Policy aimed to encourage those who work for the Council and have serious concerns about any aspect of the Council's work, to come forward and report their concerns at the earliest opportunity; so that they can be properly investigated. Since April 2022, the Corporate Anti-Fraud Service received one new protected disclosure raising concerns which was closed following a fact-finding investigation that disproved the alleged concerns</p>
<p>14. Have any reports been made under the Bribery Act? If so, please provide details</p>	<p>No reports have been made.</p>

Law and regulations

Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit and Performance Committee, is responsible for ensuring that Westminster City Council's operations are conducted in accordance with laws and regulations, including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit and Performance Committee as to whether the body is in compliance with laws and regulations. Where we become aware of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
<p>1a. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>Page 53</p>	<p>Any Key Decision or Executive Decision of the Council requires a report which contains a “Legal Implications” section within which Legal Services check and approve that what is being recommended complies with all relevant laws and regulations. Governance Services check that all reports are signed off by a representative of the Director of Law. A similar process is followed for committee reports where there are legal implications or a legal advisor attends committee meetings</p> <p>Executive Directors are authorised to exercise those powers and duties of the Council in relation to the service and activities for which they are responsible (which are not reserved to the Council, the Cabinet/a Cabinet Member or a Committee), and to exercise the professional and managerial responsibilities of their posts.</p> <p>Accordingly officers may exercise only the powers delegated to them and these are exercisable subject to the strategies, policies, and priorities determined by the members of the Council, the Council’s Financial Regulations, Procurement Code and Human Resources Policies, and they have to comply with the law and all policies, regulations, orders, codes, protocols, and similar documents approved by the Council, Cabinet, the Standards Committee or a Regulatory Committee.</p> <p>The role of Legal Services and also external solicitors and external counsel in advising Service Departments on their proposed work also helps to prevent non-compliance.</p>

Impact of laws and regulations

Question	Management response
<p>1b. What arrangements does Westminster City Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Page 54</p>	<p>Question 1 continued....</p> <p>In relation to detection of non-compliance, the Council's Financial Regulations outline how the Executive Director of Finance & Resources must ensure an effective internal audit function and is responsible for reviewing financial and management systems and controls throughout the Council, has a duty to act if fraud or corrupt practices are suspected or detected and works with the Tri-Borough Director of Audit, Fraud, Risk and Insurance in reporting to the Audit and Performance Committee on any relevant matter relating to the Council's financial controls.</p> <p>The Council's Executive Director of Finance & Resource is also responsible for developing, reviewing and maintaining an anti-fraud and anti-corruption policy including whistleblowing, and for advising on effective systems of internal control to prevent fraud and corruption.</p>

Impact of laws and regulations

Question	Management response
<p>1c. Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> <p>Page 55</p>	<p>Question 1 continued....</p> <p>In relation to changes to the Council's regulatory environment, Jake Bacchus, Director of Finance has confirmed that:</p> <p>(1) The Prudential Code for Capital Finance in Local Authorities was tightened up in late December 2021. This clarified that authorities should not borrow to purchase assets purely for commercial return. Any borrowing should be on the basis of regeneration;</p> <p>(2) McCloud Regulations. This is still under consultation, with the Government having proposed a solution to the McCloud issue. This relates to the problem of age discrimination having been identified in the Government's implementation of the LGPS change from final salary to career average based pensions back in 2014;</p> <p>(3) CIPFA Financial Management Code: The self-assessment review against the CIPFA Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability</p>

Impact of laws and regulations

Question	Management response
2. How is the Audit and Performance Committee provided with assurance that all relevant laws and regulations have been complied with?	None of these reports have identified instances where the Council has not complied with relevant laws or regulations.
3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2022 with an on-going impact on the 2022/23 financial statements? If so, please provide details	In relation to non-compliance, Jake Bacchus, Director of Finance has confirmed that the statutory accounts draft publication deadline reverted back to 31 May. The Council experienced some delays and published its accounts on 16 June 2023. Most authorities in London and across England have still not published their draft accounts. The Council published a delay notification on its website at the time of the delay. Members and external auditors were informed at the time. This has no impact on the timeframes for the 22/23 audit.
4. Are there any actual or potential litigation or claims that would affect the financial statements? If so, please provide details	Please see Michael Carson's email to Radoslaw Borzymowski of auditors on 28 June 2023, copied to Neetu Singh

Impact of laws and regulations

Question	Management response
<p>5. What arrangements does Westminster City Council have in place to identify, evaluate and account for litigation or claims?</p>	<p>Legal Services has a High Risk Register of cases updated by fee earners with conduct of high value financial claims (over £50,000), claims involving potential risk to the Council's reputation or cases which may be politically sensitive all of which could attract media publicity. The conduct of these cases is discussed with fee earners by Principal Solicitors during 1 to 1 meetings with fee earners every 6 weeks</p>
<p>6. Have there been any reports from other regulatory bodies, such as HM Revenues and Customs, which indicate non-compliance? If so, please provide details</p>	<p>Jake Bacchus & Phil Triggs have confirmed that they are not aware of anything else in the regulatory environment which may have a significant impact on the financial statements of the Council or Pension Fund.</p> <p>They are also not aware of any non-compliance matters.</p>

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Related Parties

Matters in relation to Related Parties

Westminster City Council are required to disclose transactions with bodies/individuals that would be classed as related parties. These may include:

- bodies that directly, or indirectly through one or more intermediaries, control, or are controlled by Westminster City Council;
- associates;
- joint ventures;
- a body that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any body that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the [type of body]'s perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related Parties

Question	Management response
<p>1. Have there been any changes in the related parties including those disclosed in Westminster City Council's 2022/23 financial statements?</p> <p>If so please summarise:</p> <ul style="list-style-type: none"> the nature of the relationship between these related parties and Westminster City Council whether Westminster City Council has entered into or plans to enter into any transactions with these related parties the type and purpose of these transactions 	<p>All related parties will be reported at year end and as part of the reporting all intercompany transactions will be captured as well as checks made on Companies House to ensure the validity of responses.</p>
<p>2. What controls does Westminster City Council have in place to identify, account for and disclose related party transactions and relationships?</p>	<p>All Councillors, ELT members and senior finance staff are requested to submit all related party relationships. If they have none, an email confirming is filed as part of Audit. Following a RP disclosure a review of all intercompany transactions takes place. A separate review of Companies House for all members will be completed in 22/23 as part of year end.</p>

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Related Parties

Question	Management response
<p>3. What controls are in place to authorise and approve significant transactions and arrangements with related parties?</p>	<p>Current materiality is £25k.</p> <p>A clear separation of duty throughout the process of raising a PO for payment, one person raises a requisition, and another (in most instances their line manager) approves the requisition which then creates a PO number. With the exception of Manual Payments, the council adopt a very stringent No PO no Pay policy. In additional any payments above £100k require separate approval by the procurement team.</p> <p>In cases of Manual payments, they require senior management approval and very clear evidence for why the invoice method is not suitable.</p> <p>Larger Capital spend is approved through Cabinet Member meetings and the Wider Capital Review Group as well as senior Finance management.</p> <p>Procurement policy is that for any contracts above £10k there must be 3 tender submissions and a review prior to any contract award.</p>
<p>4. What controls are in place to authorise and approve significant transactions outside of the normal course of business?</p>	<p>All transactions over £100k are required to be approved through the Commercial Gateway Review Board. This governance process allows scrutiny from specialists across WCC including Procurement, Legal and Finance. The council's Financial Regulations set out the governance and approvals required for all spend, amounts over £1.5m requiring Cabinet Member sign-off</p>

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Going Concern

Matters in relation to Going Concern

The audit approach for going concern is based on the requirements of ISA (UK) 570, as interpreted by Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020). It also takes into account the National Audit Office's Supplementary Guidance Note (SGN) 01: Going Concern – Auditors' responsibilities for local public bodies.

Practice Note 10 confirms that in many (but not all) public sector bodies, the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the body's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist.

For this reason, a straightforward and standardised approach to compliance with ISA (UK) 570 will often be appropriate for public sector bodies. This will be a proportionate approach to going concern based on the body's circumstances and the applicable financial reporting framework. In line with Practice Note 10, the auditor's assessment of going concern should take account of the statutory nature of the body and the fact that the financial reporting framework for local government bodies presume going concern in the event of anticipated continuation of provision of the services provided by the body. Therefore, the public sector auditor applies a 'continued provision of service approach', unless there is clear evidence to the contrary. This would also apply even where those services are planned to transfer to another body, as in such circumstances, the underlying services will continue.

For many public sector bodies, the financial sustainability of the body and the services it provides are more likely to be of significant public interest than the application of the going concern basis of accounting. Financial sustainability is a key component of value for money work and it is through such work that it will be considered.

Going Concern

Question	Management response
<p>1. What processes and controls does management have in place to identify events and / or conditions which may indicate that the statutory services being provided by Westminster City Council will no longer continue?</p>	<p>The Council's performance and financial position is reported to members and senior officers on a regular basis. Audit and Performance Committee receive quarterly performance and financial reports. These set out the Council's financial position and variance against budget. The performance report sets out how the council are measuring up against key performance indicators.</p> <p>The Council's Executive Leadership Team meet on a weekly basis and Executive Directors also have regular departmental leadership meetings to discuss performance and finances. Furthermore, all Cabinet Members have regular briefings that ensure they are aware of the latest developments in a service and are made aware of any issues</p>
<p>2. Are management aware of any factors which may mean for Westminster City Council that either statutory services will no longer be provided or that funding for statutory services will be discontinued? If so, what are they?</p>	<p>No</p>

Going Concern

Question	Management response
<p>3. With regard to the statutory services currently provided by Westminster City Council does Westminster City Council expect to continue to deliver them for the foreseeable future, or will they be delivered by related public authorities if there are any plans for Westminster City Council to cease to exist?</p>	<p>Yes, continue to be provided by the Council.</p>
<p>4. Are management satisfied that the financial reporting framework permits Westminster City Council to prepare its financial statements on a going concern basis? Are management satisfied that preparing financial statements on a going concern basis will provide a faithful representation of the items in the financial statements?</p>	<p>Yes, the Council can prepare the statements on a going concern basis and provide a faithful representation of the items in the financial statements.</p>

Accounting estimates

Matters in relation to accounting estimates

ISA (UK) 540 (Revised December 2018) requires auditors to understand and assess a body's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the body's risk management process identifies and addresses risks relating to accounting estimates;
- The body's information system as it relates to accounting estimates;
- The body's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

Accounting Estimates - General Enquiries of Management

Question	Management response
1. What are the classes of transactions, events and conditions, that are significant to the financial statements that give rise to the need for, or changes in, accounting estimate and related disclosures?	Valuations Depreciation Accruals Pension Liability Provisions
2. How does the Council's risk management process identify and address risks relating to accounting estimates?	It is the view of the Section 151 officer that the estimates made within the Statement of Accounts are consistent with the Local Authority Accounting Code of Practice and are both prudent and reasonable
3. How does management identify the methods, assumptions or source data, and the need for changes in them, in relation to key accounting estimates?	The Accounting Policies which set out the specific principles, rules and practices applied by the Authority in preparing and presenting the financial statements are approved each year by our audit committee. The financial statements are presented to internal audit each year which set out the accounting estimates used.
4. How do management review the outcomes of previous accounting estimates?	The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors
5. Were any changes made to the estimation processes in 2022/23 and, if so, what was the reason for these?	No

Accounting Estimates - General Enquiries of Management

Question	Management response
<p>6. How does management identify the need for and apply specialised skills or knowledge related to accounting estimates?</p>	<p>The professional judgement of the experts such as valuers etc are used to identify the need for accounting estimates.</p> <p>(refer to appendix A)</p>
<p>7. How does the Council determine what control activities are needed for significant accounting estimates, including the controls at any service providers or management experts?</p>	<p>Specialists are used where there are significant accounting estimates. These are reviewed by Finance and Quality Assurance carried out by Senior Managers</p> <p>(refer to appendix A)</p>
<p>8. How does management monitor the operation of control activities related to accounting estimates, including the key controls at any service providers or management experts?</p>	<p>Yearly review of the provisions methodology</p> <p>Accruals panel</p> <p>Valuations challenge sessions and management control checks on the inputs.</p>
<p>9. What is the nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates, including:</p> <ul style="list-style-type: none"> - Management's process for making significant accounting estimates - The methods and models used - The resultant accounting estimates included in the financial statements. 	<p>Refer to the PSA accounting estimate management summary documents for details.</p>

Accounting Estimates - General Enquiries of Management

Question	Management response
10. Are management aware of any transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)? If so, what are they?	No
11. Why are management satisfied that their arrangements for the accounting estimates, as detailed in Appendix A, are reasonable?	<p>Refer to the PSA accounting estimate management summary documents for details and refer to management response.</p> <p>The PSA accounting document outlines understanding of how management developed the estimate. The estimates are then reviewed and tested. Reasonableness of all the workings are checked as per details provided in the document. Management is satisfied with reasonableness for the estimates for 22/23.</p>
12. How is the Audit and Performance Committee provided with assurance that the arrangements for accounting estimates are adequate ?	Through the annual financial statement report and any specific reports.

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Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
<p>Land and buildings valuations</p> <p>Page 68</p>	<p>Current value, comprising existing use value. Where prices for comparable properties are available in an active market, properties are valued at market value taking into account the existing use. Where no market exists or the property is specialised, current value is measured at depreciated replacement cost</p>	<p>Officers challenge methods provided and agree reasonableness of estimates .</p> <p>A meeting between both property teams, the valuers and Avison Young (facilitated by finance) will held in March and April to discuss all the properties undergoing valuations and indexation in 2022/23. The current usage of each asset was agreed and documented, and material differences were challenged.</p>	<p>Sanderson Weatherall LLP.</p>	<p>For the rolling 80% of assets that are not subject to an inspection and full valuation, dependant on the level of change recorded, assets will either be individually revalued on a desktop basis (typically where a property specific impairment event has occurred) or index adjusted in line with an appropriate index, such adjustment being applied to a group of assets (if deemed appropriate) that share common characteristics and valuation methodology.</p>	<p>No</p>

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Council dwelling valuations Page 69	Current value, comprising existing use value for social housing Dwellings are valued using market prices for comparable properties, adjusted to reflect occupancy under secure tenancies.	Officers challenge methods provided and agree reasonableness of estimates	Sanderson Weatherall LLP.	No change to the methodology is proposed for this year. To prepare the annual revaluation of the HRA portfolio the valuers adopted the index approach. This is in line with the CIPFA guidance set out within "Stock Valuation for Resource Accounting – Guidance for Valuers 2016".	No
Investment property valuations	Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end.	Officers challenge methods provided and agree reasonableness of estimates	Sanderson Weatherall LLP	Less certainty and a higher degree of caution should be attached to the valuation. SW will produce a document detailing their assumptions made to reflect the current market	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation Page 70	<p>Depreciation is calculated on the following bases:</p> <ul style="list-style-type: none"> • Buildings - straight-line allocation over the useful life of the property. • HRA dwellings are depreciated based upon component accounting basis. In the year of disposal a full year's depreciation is charged to the accounts and nothing in the year of acquisition; • Vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer; • Infrastructure - straight-line allocation over 10 - 15 years 	<p>Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. Large differences will be explained or investigated.</p> <p>Depreciation is calculated on the value of assets brought forward on 1 April each year. For new assets purchased or whose construction was completed and brought into use during the year, no depreciation is charged in that year. A full year's depreciation is calculated in the following and subsequent years.</p>	No	The council split land and building for operational properties and HRA for the purposes of depreciation. The split was based on the NBV at 30% for land and 70% Building.	No

Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Depreciation (cont...) Page 71	<p>Depreciation is calculated on the following bases:</p> <ul style="list-style-type: none"> • Buildings - straight-line allocation over the useful life of the property. • HRA dwellings are depreciated based upon component accounting basis. In the year of disposal a full year's depreciation is charged to the accounts and nothing in the year of acquisition; • Vehicles, plant, furniture and equipment - a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer; • Infrastructure - straight-line allocation over 10 - 15 years 	<p>Disposals and demolished assets will have a full year's depreciation calculated in the year of disposal.</p> <p>Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.</p>	No	<p>The council split land and building for operational properties and HRA for the purposes of depreciation. The split was based on the NBV at 30% for land and 70% Building.</p>	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Valuation of defined benefit net pension fund liabilities Page 72	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied	Officers challenge methods provided and agree reasonableness of estimates. The Strategic Investment Manager asks for confirmation of any significant movements in valuation assumptions, and the reasons why.	Yes – Actuary Hyman Robertsons	Actuary using financial assumptions that comply with IAS19. The structure of the liabilities is substantially the same as at the latest formal valuation. CPI assumption. Salaries are assumed to increase at 1.0% p.a. above CPI Sensitivity analysis on major assumptions, please see section 6 IAS 19	No
Level 2 investments	No estimates are required, the amortised cost valuation is taken at 31st March. The associated fair value where applicable is calculated based on 31st March discount rate.				

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Level 3 investments	No estimates are required, the amortised cost valuation is taken at 31st March. The associated fair value where applicable is calculated based on 31st March discount rate	The valuation will be the Council's share of the Net Asset Value of the fund based on the March 2023 unit price, the NAV will be based on the latest available quarterly unaudited accounts.		We have approached Resonance for an assessed valuation range and they have indicated a range of +0.45%/-0.45%.	No
Fair value estimates	No estimates are required, the amortised cost valuation is taken at 31st March. The associated fair value where applicable is calculated based on 31st March discount rate				

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Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Provisions Page 74	Provisions are recognised where the Council has a legal or constructive obligation arising from a past event that will probably require settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation	Discussion between Corporate Finance and wider finance on creation of new provisions, which are reviewed and agreed with the Director of Finance. Existing provisions are review in ensure they are still required and the amount set aside is still appropriate. Specific analysis is provided for the insurance and NNDR appeals provisions	External analysis via Analyse Local is used to determined the NNDR appeals provision. Actuary used (not annually) to estimate the Insurance fund provision	Degree of uncertainty built into Insurance	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Accruals Page 75	Accrual estimates based on supplier's confirming the invoice amount to be paid, based on previous recurring invoices, working paper of services charged at a rate or other third party evidence.	Every accrual is submitted into an accruals log on a centralised share-point, where it is first reviewed and approved by a Finance Manager's manager. An Accrual Panel member in a different area will also check the estimation of the accrual.	No	Accruals are made for goods/services already received, although the exact cost may not be known and estimates may have to be made for example on previous recurring invoices.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Credit loss and impairment allowances Page 76	The methodology used to calculate BDP depends on the type of debt. Usually, the method is a combination of looking at the nature of the debt (e.g. whether they are by current or former tenants and the going-concern of a business) and the length of the bad debt (e.g. 50% for debts 6-12 months old and 100% for debts over a year old). In general, no changes have been made to the models in 2022/23.	There are adequate controls in place for the calculation of bad debt provision. The systems used to provide the source data (Avison Young, Capita, Orchard etc.) are reliable. Once the source data has been downloaded or sent to the responsible officer, the responsible officer will then analyse the information, monitor the major changes and query any discrepancies	The management of Temporary Accommodation (TA) is outsourced to RMG who run the WCC Housing Solutions Service which include debt management of tenants in TA. For Council Tax & Business Rates, the impairments are calculated based on aged debt figures that are part of the Collection Fund working papers, which is based on information from Capita	There is uncertainty in any estimation. The bad debt calculations are based on the most up to date information we have on outstanding aged debt. The amounts or percentage provided for are based on methodologies which are shown to be reasonable based on historic activity.	No

Appendix A Accounting Estimates (Continued)

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
Finance lease liabilities Page 77	Finance leases have been accounted for via calculating ROU asset and liability and amortising both over life of lease Operating leases have accounted for as expenses in the I&E.	21/22 and soon 22/23 ledger has been evaluated to examine if contracts have leases within them in preparation for implementation of IFRS 16.	Management have used training materials from CIPFA as well as Stephen Sheen	Assumptions: 1. IFRS 16 to go live from 1st April 2024. Under current guidance all operating leases to be identified, but change in method to only start from 22/23. 2. 10K de-minimus has been set for identifying leases. Supplier payments below 10K have not been identified yet. 3. Historic cost model used to value finance leases. Finance lease assets not revalued.	No change in accounting method this year
PFI Liabilities	Model used as per guidance in CIPFA code.	SFMs will be requested to confirm no existence of service concession	No expert has been used to evaluate existence of service concessions	CIPFA and FRC have not indicated any change to accounting method, hence this method has been assumed to continue on in future years	CIPFA and FRC have not indicated any change to accounting method, hence this method has been assumed to continue on in future years

