



City of Westminster

Committee Agenda

Title: **Audit and Performance Committee**

Meeting Date: **Thursday 14th July, 2016**

Time: **4.30 pm**

Venue: **Rooms 13A & 13B - 17th Floor, Westminster City Hall, 64 Victoria Street, London, SW1E 6 QP**

Members: **Councillors:**

Jonathan Glanz (Chairman)
Lindsey Hall (Vice-Chairman)
David Boothroyd
Judith Warner

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 at City Hall from 4.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.



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

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

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

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the membership.

2. DECLARATIONS OF INTEREST

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

3. 2015-16 ANNUAL ACCOUNTS - FORMAL APPROVAL

Report of the City Treasurer

(Pages 1 - 98)

4. FINANCE (PERIOD 2) REPORT

Report of the City Treasurer

(Pages 99 - 114)

5. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

RECOMMENDED: That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following item(s) of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

<u>Item No</u>	<u>Grounds</u>	<u>Para. of Part 1 of Schedule 12A of the Act</u>
6	Business or financial affairs of the Council or other body	3

6. UPDATE ON THE MANAGED SERVICES PROGRAMME

Report of the Bi-Borough Director of Corporate Services

**(Pages 115 -
120)**

**Charlie Parker
Chief Executive
6 July 2016**

This page is intentionally left blank



Audit and Performance Committee Meeting

Date:	Thursday 14th July 2016
Classification:	General Release
Title:	2015/16 Annual Accounts – FORMAL APPROVAL
Report of:	City Treasurer
Cabinet Member Portfolio	Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	The efficient and effective management of the Council's financial affairs
Report Author and Contact Details:	Steven Mair – City Treasurer smair@westminster.gov.uk

1. Executive Summary

- 1.1 The revenue outturn of the Council for the year 2015/16 is now confirmed as an under spend of £5.540m against net budget. The items contributing to this underspend are detailed in section 4.
- 1.2 The capital outturn for the financial year 2015/16 was an underspend of £11.916m against budget. Further information on the capital programme is contained within section 5.
- 1.3 Grant Thornton's audit findings provide an unqualified opinion on the accounts with no material errors identified during the audit.
- 1.4 Since the meeting of the 12th May 2016 only minor changes have been made to the accounts. The most significant of which is within Note 6 to reference the potential impact of the EU referendum decision.
- 1.5 All previous objections from 2008/09 to 2014/15 have now been resolved and the accounts for those years formally signed off. This is also noted in note 6 to the accounts as a change from the signed annual governance statement.
- 1.6 At the date of the preparation of this report there are no outstanding objections for the year 2015/16.

2. Background

- 2.1 The Council prepared its final accounts for 2015/16 and submitted them to the Council's external auditors, Grant Thornton, for audit on 9th April 2015. This is a full 12 weeks in advance of the statutory requirement of the 30 June.
- 2.2 Due to a change in legislation, formal approval of the accounts is not possible before a fixed period of public inspection has taken place. The change in legislation meant that this must now include the first ten working days in July. Therefore the inspection period has taken place between the 3rd June and 14th July 2016.
- 2.3 A draft report was brought to Audit and Performance committee on the 12th May 2016 along with the draft audit report. This meeting is to agree the final audited accounts and audit reports.
- 2.4 The Council has very significantly improved the quality and the timeliness of its accounts. This has been achieved through the financial transformation programme that was put in place for 2014/15 and which has continued into 2015/16 and which will continue going forward.
- 2.5 The accounts are shown as the Appendix 1 and contain full detail of the Authority's finances for the year.

3. Information

- 3.1 Due to the draft report on the 12th May 2016, some of the information contained below has previously been reported. However, for completeness it is included alongside the newly reported information below as this meeting represents the formal approval of the accounts.

4. Revenue Outturn by Cabinet Member

- 4.1 Since the meeting of the 12th May 2016, there have been no changes to the outturn position from the draft accounts submitted at that meeting.
- 4.2 As shown in Table 2 below, at year end the Council has delivered an under spend of £5.540m against the net budget. This is significantly due to:
 - A £2.190m net surplus from the Parking service arising from contract budget underspends (£1.5m), combined with additional income (£0.690m).
 - Additional income from Commercial Waste net of additional disposal costs (£1.878m)
 - A net surplus in Highways (£1.842m) from staffing vacancies and lower spend on reactive maintenance, particularly on footways

The outturn by cabinet portfolio is set out below:

Table 1 – Period 12 Actual Outturn by Cabinet Member

Cabinet Portfolio Structure	Budget	Actual Outturn	Variance to Budget
	£000	£000	£000
Leader of the Council	7,300	7,181	(119)
Deputy Leader and Built Environment	3,914	3,296	(618)
Finance and Corporate Services	29,225	28,811	(414)
Children and Young People	41,043	40,914	(129)
Housing, Regeneration, Business & Economic Development	28,457	28,387	(70)
Public Protection	9,916	9,262	(654)
Sustainability and Parking	(43,730)	(45,966)	(2,236)
City Management and Customer Services	44,687	43,684	(1,003)
Adults & Public Health	64,030	63,831	(199)
Sport and Leisure	11,464	11,366	(98)
SERVICE AREA TOTAL	196,306	190,766	(5,540)

Council Tax	46,043	46,043	-
Business Rates Net of Tariff	80,224	80,224	-
Revenue Support Grant	70,039	70,039	-
Corporate Financing	196,306	196,306	-
Net (Surplus) / Deficit	-	(5,540)	(5,540)

Leader of the Council (Cllr Roe)

- 4.3 The favourable variance of £0.119m was delivered by year end against this portfolio.
- 4.4 This arose from the Chief of Staff's Office (£0.086m), due to vacancies that were not recruited to (£0.034m), together with underspends on mayoral expenses (£0.024m), staff travel (£0.011m) and £0.017m across other overheads.
- 4.5 A further surplus of £0.033m arose within Policy, Performance and Communications as a result of employee costs being lower than budget (£0.343m) and over achievement on income (£0.325m) of which £0.160m relates to air quality grant income and £0.121m to funding from RBKC and LBHF for the business intelligence project. However, this was offset by adverse variances on expenditure of £0.635m, of which £0.419m was due to contract services with balance across other non-pay expenditure.

Deputy Leader of the Council and Built Environment (Cllr Davis)

- 4.6 The favourable outturn variance of £0.618m arises as a result of a £0.516m surplus in Planning, and under spends of £0.102m in City Promotions, Events and Filming.
- 4.7 Within Planning, there were underspends in Development Planning on staffing (£0.8m), increased income from planning applications (£0.6m), offset by reduced income on rechargeable work, notably building control (£0.73m), and other minor overspends.
- 4.8 The under spend in City Promotions, Events and Filming of £0.102m was due to an under spend of £0.135m resulting from staff vacancies and an over achievement on income of £0.092m. However, this was offset by an over spend of £0.125m, mainly due to contract spend being greater than budget.

Finance and Corporate Services (Cllr Mitchell)

- 4.9 An under spend of £0.414m is reported for this portfolio, arising from variances across a number of directorates.
- A minor under spend arose within the City Treasurer directorate due to improved net interest earnings on loans and investments which delivered a favourable impact on net financing costs, offset by technical adjustments required in the financial statements.
 - An under spend arose within Development and Transformation service (£0.208m), mainly driven by employee related costs being lower than budget. This was the result of vacancies being held during the year to mitigate against pressures in other areas of the directorate.
 - An under spend of £0.103m, driven by under spends within Members Services (£0.158m), mainly relating to the members allowance; the Customer and Complaints team, under spent by £0.061m; offset by £0.116m on Coroner's Services, mainly due to funeral expenses (£0.074m), legal fees (£0.017m) and other overheads (£0.025m).
 - Corporate Services delivered an under spend of £0.164m against the full year budget, the key driver for which was staff vacancies within HR. At P10 it was viewed that the Procurement service could undergo a restructure at a Bi-Borough level which would have delivered savings and equivalent costs of delivery. No decision was confirmed however and no restructure has taken place.
 - WCC business rates income has been significantly lower than CLG assumed baseline funding levels since the start of localised rates. (Lower by £57m in 2013/14 and £66m in 2014/15). It was a further £65m lower in 2015/16. The Council is however protected against a loss in excess of £6m loss by the safety net and thus the Council's budget was balanced in this regard. It is likely that a safety net payment will also be required next

year. The 2017 Revaluation has the potential to create further similar problems in future years

Children and Young People (Cllr Chalkley)

- 4.10 Overall the Children's Services directorate has reported an outturn underspend of £0.129m. This is an improvement on the breakeven projection at P10.
- 4.11 The Commissioning service was underspent by £0.042m as it delivered early MTP savings on Early Years, Legal & Family Partnership budgets, which offset overspends on Assessment and Contact services, plus staffing and transitional costs associated with the delayed implementation of the restructure to the service.
- 4.12 Family Services had an adverse outturn of £1.136m mainly arising from significant demand-led pressures relating to external private and residential placement costs brought about through Government strategy and/or legislative changes. Although placement expenditure has decreased by the MTP target, it still remains a significant cost pressure to the service overall. There were also in-year cuts in Government grant funding for the Youth Offending Service and also the late delivery of MTP savings relating to Play and Children's Centres.
- 4.13 There were also overspends within the Schools Commissioning and Education service of £0.364m mainly due to overspends on the SEN passenger transport contract as the number of high needs, high cost service users have been higher than anticipated. There were also pressures as a result of unfunded posts required to support service stability through the conversion of SEN Statements into the new Education, Health and Care Plan (EHCP) format. These overspends were partially mitigated by underspends within school standards as a result of increased income.
- 4.14 The Safeguarding and Quality Assurance service had a small overspend a result of additional agency expenditure to cover short term vacancies (£0.052m).
- 4.15 The Finance and Resources service had a favourable outturn of £1.580m as it has delivered underspends from Social Care Legal, Transport and Building Schools for the Future budgets.

Housing, Regeneration, Business and Economic Development (Cllr Astaire)

- 4.16 A favourable variance of £0.070m is reported, comprised of a number of variances.
- 4.17 Within the variances stemming from Growth, Planning and Housing (£0.287m net overspend), the Temporary Accommodation service overspent by £3.5m as a result of increased demand and higher weekly average costs of provision. This was largely mitigated by savings within the Supporting People

service (£1.0m), the use of a one off Temporary Accommodation reserve (£2.0m) and one off additional government grant funding which had not been budgeted for (£0.2m). There was a £1.1m under recovery of income within Major Projects as a result of slippage in the capital programme, £0.100m overspend from lower recharges than budgeted and a £0.090m overspend from a reorganisation within Infrastructure Services. These costs are offset by £0.325m of additional funding from Public Health in Housing Operations; additional recharges to HRA for telephony (£0.254m); a grant received but not budgeted for within Affordable Housing (£0.095); savings within Housing Conditions from valuation fees budget not being spent in full (£0.067m) and other overheads across the portfolio.

- 4.18 A £0.881m surplus in CMC predominantly relates to an income surplus to budget in Tables and Chairs licensing with £0.035m from licensing of Houses in Multiple Occupation.

The above position is offset by over spend of £0.524m relating to Cross River Partnership. This is mainly due to an over spend against payments to service providers. The over spend of £0.524m was absorbed within the directorate and offset by under spend in other services.

Public Protection (Cllr Aiken)

- 4.19 This portfolio is reporting a year end surplus variance against budget of £0.654m.
- 4.20 Favourable variances have arisen across the services, predominantly arising from staff vacancies (£0.674m), additional recharge income (£0.605m), partially offset by the funding of the CCTV service and a contribution towards the creation of a fund for future years' MTP change initiatives (£0.6m), while other minor variations make up the total outturn surplus variance.

Sustainability and Parking (Cllr Acton)

- 4.21 The surplus of £2.236m is attributable to both underspends (£1.5m) and an increase in revenue streams from suspension and trade permit tariff increases implemented during the second half of the year (a net £0.69m). A small staffing under spend of £0.051m in the Service Development and Transformation team contributes to the overall surplus in this portfolio.

City Management and Customer Services (Cllr Caplan)

- 4.22 The City Management and Customer Services portfolio has delivered a full year surplus of £1.003m.
- 4.23 The surplus relates to highways maintenance underspends and staffing vacancies of £1.842m and commercial waste income growth net of additional collection and disposal costs of £1.878m, offset by establishing resources of £1.2m on the Council's balance sheet which, subject to approval of business case submissions, may be available for release to fund future years' MTP

change initiatives, by way of example the digitisation agenda and libraries transformation. This combined surplus of £2.520m is offset by pressures in Roads Management income linked to the statutory fees in the service (£0.662m), other running cost pressures in the portfolio (£0.361m) and digital programme costs (£0.335m). In addition, the Agilisys contract was over spent by £0.059m, mainly due to one-off software purchases. However, this was funded from under spends from within the Policy, Performance and Communications directorate.

Adults and Public Health (Cllr Robathan)

- 4.24 The Outturn position for Adults and Public Health as at 31st March 2016 is an under spend of £0.199m. The main reasons for the variance are direct payment claw-backs of care payments received in March and general movements in placement packages. All in year budget pressures were contained within existing resources and the outturn includes the achievement of the £6m savings target for 2015/16.
- 4.25 The anticipated risk in the Homecare forecast of £0.1m at P10 did not materialise as it was mitigated by a slower than expected transfer of packages to new contracts.
- 4.26 There will continue to be on-going pressures on ASC budgets and a forecast growth in demand for care services as a result of increasing numbers of older people, people with disabilities and people with long term health conditions needing care. These demographic pressures are exacerbated by increasing pressure from hospitals to discharge patients in a timely fashion, particularly during the winter months. In addition there is pressure from a reduced capacity to make efficiencies from external care providers without affecting the quality of care they provide along with an increase in homecare costs. Internal reviews of all areas of expenditure are on-going in order to mitigate pressure from care placements. Using ONS & GLA data, demographic pressures have been estimated as being approximately 1.7% of total placement budgets each year for the next 10 years at approximately £1.1m to £1.2m p.a. and this is being closely monitored for financial planning.
- 4.27 On the 4th June 2015 it was announced by the Treasury that Non-NHS Health budgets are to be cut in-year by £200m (6.2%) across England. WCC's current share of the total Public Health funding for 2015/16 is £33.477m. For WCC this equated to a cut of £2.076m which was met from contract underspends and unexpected underspends in Public Health Investment Fund approved projects. In the Spending Review the Chancellor advised that there would be further savings in the Public Health grant - an average real terms saving of 3.9% each year to 2020/21.

Sports and Leisure (Cllr Harvey)

- 4.28 The outturn position for was an under spend of £0.098m mainly due to various budgets that were under spent by £0.257m offset by a deficit relating to

Registrars income pressures and Sayers Croft supplies and services amounting to a total £0.159m.

5. Capital outturn by Cabinet Member

5.1 The table below shows the Approved Budget and projects by Cabinet Member Portfolio for 2015/16.

Table 2 – Capital 2015/16 Outturn by Cabinet Member

Cabinet Portfolio Structure	Revised Gross Capital £000	Revised External Income £000	Budget (Net) £000	Final Gross Capital £000	Final External Income £000	Outturn Net £000	Gross Expend vs Budget £000	External Income vs Budget £000	Net Spend Variance £000
Deputy Leader and Built Env. - Cllr Davis	20,242	(16,582)	3,661	18,207	(16,585)	1,622	2,036	3	2,038
Finance and Corporate Services- Cllr Mitchell	18,163	(3,576)	14,587	12,756	(6,922)	5,834	5,407	3,346	8,753
Children and Young People - Cllr Chalkley	6,124	(5,565)	559	7,521	(7,223)	297	(1,396)	1,658	262
Housing, Regeneration, Business and Economic Development - Cllr Astaire	35,859	(28,742)	7,117	17,261	(8,332)	8,929	18,598	(20,410)	(1,812)
Public Protection - Cllr Aiken	112	0	112	66	0	66	46	0	46
Sustainability And Parking - Cllr Acton	805	0	805	0	0	0	805	0	805
City Management and Customer services - Cllr Caplan	11,049	(173)	10,876	12,084	(2,316)	9,769	(1,035)	2,143	1,108
Adults and Public Health - Cllr Robathan	92	(165)	(73)	262	(151)	110	(170)	(14)	(183)
Sports and Leisure Services - Cllr D Harvey	2,250	(75)	2,175	1,276	0	1,276	974	(75)	899
SERVICE AREA TOTAL	94,697	(54,878)	39,819	69,432	(41,530)	27,903	25,265	(13,349)	11,916
Financing:			(39,819)			(27,903)			
Net			0			0			

Deputy Leader of the Council and Built Environment (Cllr Davis)

5.2 The portfolio reported a gross underspend against budget of £2.036m which on a net basis was £2.038m. Within the portfolio there were the following variances due to re-profiling or underspends:

- Oxford Street West: £0.568m
- Westbourne & Paddington: £0.400m
- Queensway street scene: £0.250m
- Leicester Square redesign: £0.130m
- Harrow road range of schemes: £0.320m
- Combination of other minor variations across a range of projects: £0.368m

Finance and Corporate Services (Cllr Mitchell)

5.3 The portfolio reported a gross underspend against budget of £5.407m which on a net basis was £8.753m. Variances included underspends of (£434k) on the new Tresham House community centre where the final costs out-turned at £4m. There was also slippage of £129k on feasibility costs for the new Marylebone library (budget £590k), and £600k on the Sir Simon Milton Westminster UTC (budget £3.9m). These were offset by increased in year expenditure against expectation of £1.4m on site assembly costs at Huguenot house (approved budget £1.1m) where spend is largely determined by opportunity, and five properties became available and were purchased in year. The landlords responsibility budget of £2.9m underspent by £2m, this budget is essentially resources that can be drawn down if required to undertake essential repairs on corporate property. The forward management plan a

contractually committed works budget of £1.6m managed by AMEY also slipped £742k. The remainder of the variance can be explained by a large number of other projects with smaller individual variances.

- 5.4 At the end of March 2016 the Corporate Service's year end capital spend was £711k which compared to the revised budget of £1,475k. The main reason for this under spend of £764k was the reclassification of one project from capital to revenue which is explained below.
- 5.5 In 2015/16 a capital budget of £790k was created for Office 365 and Strategic Infrastructure Platform (SIP). The nature of the expenditure was deemed to be revenue and was funded by underspends as the council is procuring a service from a provider and not owning an asset. In addition, there was an under spend of £10k relating to software licences however additional expenditure of £34k was incurred relating to Airwatch licences.
- 5.6 The key capital projects related to data centre and network refresh which made up £541k of the total spend of £711k. The data centre and network refresh covered equipment refresh, planned activity for transition away from VMB/Ericsson contracts and general LAN switch updates which are not covered by the City Hall refurbishment programme e.g. Lisson Grove. Also work was under taken on the existing Westminster Netcall platform and a telephony software upgrade under the existing Ericsson contract. A further £112k was been incurred on the purchase and configuration of computers for end users. The remaining balance was made up of smaller ad hoc projects.

Children and Young People (Cllr Chalkley)

- 5.7 The Children's Services capital programme delivered £7,521k of works in 2015/16, of which £7,223k was funded externally and £297k by the Council's own funds. Of the £7,521k, £6,414k was spent on projects delivering additional school/college places, whilst £1,106k of refurbishment works were delivered across schools (£883k) and non-schools sites (£223k).
- 5.8 The variance to revised budget of £4.363m is materially explained by an overachievement against programme of the final school in the Building Schools for the Future programme (Quintin Kynaston) of £1.778m. The remainder of the variance is a result of various other smaller project variances.
- 5.9 Income varied by £1,658k primarily because of the grant income associated with the £1,778k Quintin Kynaston BSF project. The overall net position was therefore £262k.

Housing, Regeneration, Business and Economic Development (Cllr Astaire)

- 5.10 The revised gross expenditure budget was £35.859m, the outturn was £17.261m producing an overall variance of £18.598m but just £1.812m on a net basis because grant movements have varied largely in line with spend. The main reason for this was the Affordable Housing Fund (AHF), which underspent by £23.7m. The re-profiling was caused by delays in Westminster Community Homes (£5m) infill programme and in Dolphin square progressing its Incubator scheme (£18m). This was partly offset by an additional +£2m spend upon acquiring TA properties for temporary accommodation, where 40 properties rather than 37 were purchased and the average cost was £27k more than budget due to market conditions. The balance was made up from a number of other variances.

Public Protection (Cllr Aiken)

- 5.11 This portfolio is reporting a gross and net year end underspend of £46k against a gross budget of £112k. This was a result of an underspend on minor ICT projects to support mobile working.

Sustainability and Parking (Cllr Acton)

- 5.12 This portfolio reported a gross and net variance of £805k which included slippage from 14/15 of £240k on enforcement. This activity was funded from within the Parking revenue surplus position.

City Management and Customer Services (Cllr Caplan)

- 5.13 The portfolio overachieved against a budget of £11.049m gross capital expenditure by £1.035m and in respect of the income budget of £173k by £2.143m due to external funding in bridges, structures and highways works. The gross expenditure variance was materially as a result of a number of Bridges and Structures projects totalling £850k delivering programme activity against budgets which had previously been re-profiled.
- 5.14 There was a gross overspend to budget on externally-funded schemes, offset by a reflection of external funding above budget (£2.143m) which relates predominantly to circa 65 externally-funded schemes – such as Developer-funded Footways works – that have come in or commenced during the year.

Adults and Public Health (Cllr Robathan)

- 5.15 The 2015/16 final outturn position is a gross capital expenditure over achievement against net budget of £170k or £183k on a net basis. This variance to revised budget is because of a late addition of a grant funded Resources Allocation System in Period 11 (£39k) and the Barnard & Florey reconfiguration (£0.182m) which had been slipped into 2016/17 due to issues related to permissions and extension of leases which incurred more

expenditure against programme than planned. A number of other small project variances make up the balance.

Sports and Leisure (Cllr Harvey)

- 5.16 The portfolio underspent against a budget of £2.250m gross capital expenditure by £974k with an income variance of £75k leaving a net position of £899k underspent. This was largely because the Moberly leisure scheme (£0.9m) has been re-profiled to 2016/17 and a range of minor maintenance works in leisure facilities (£0.075m).

6 Housing Revenue Account

- 6.1 This section details the Housing Revenue Account year end position for 2015/16.

Revenue Expenditure

- 6.2 The HRA commenced the year with some significant financial challenges as a result of continuing policy and legislative changes from Central Government. However, the operating position for the year culminated in a surplus of £1.380m, which represented an adverse variance of £6.6m from budget. This is mainly due to lower than expected recovery of leaseholders major works income as a result of slippages in the last and current year Capital programme, lower than expected net rental income due to higher right to buy (RTB) and discretionary stock disposals and higher depreciation charges for the dwelling stock. These adverse variances are partially compensated for by lower than expected repairs and maintenance costs and release of lessee bad debt provision that is no longer required.

Capital Expenditure

HRA Capital Outturn - 2015-16

Description	Revised Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Major Works	46,500	29,887	(16,613)
Regeneration/Renewals	28,686	15,612	(13,074)
Other Projects	18,257	9,187	(9,070)
Total Capital Expenditure	93,443	54,685	(38,758)

- 6.3 The HRA Capital outturn was £54.6m against a revised budget of £93.4m, resulting in a variance of £38.8m, see table above. This overall variance is made up of £16.6m on major works to existing stock, £13.1m on Regeneration

and Renewal schemes and £9.1m on non-delegated schemes. It is anticipated that this slippage will be reviewed and re-profiled in future years.

- 6.4 The major works variance is largely the result of a number of factors including the need to re-scope and repackage schemes in order to reduce the impact of multiple leaseholder bills, and to protracted leaseholder consultation processes that have delayed some schemes getting on site.
- 6.5 The regeneration and renewal variance is made up of variances on Ebury Bridge £9.7m, Lisson Arches £2.4m, Tollgate Gardens £1.8m, Parsons North £0.7m and Luton St £0.6m along with some other smaller variances.

- Ebury Bridge – The £9.7m slippage is due to delay in completing the compulsory purchase order (CPO) of 31 of the 66 properties planned buybacks, decanting of tenants and the Soho block acquisition. The construction programme originally envisaged to commence on site in 2015/16 is now likely to be delayed into 2017/18 depending on the rephrasing option selected and procurement route to secure a developer. The unspent buyback budget will be carried forward to meet future buyback costs.
- Lisson Arches - The £2.4m slippage is due to delay in completing enabling works as the build programme is now expected to commence in 2016/17. The unspent enabling works budget will be carried forward to complete enabling works in advance of the build programme.
- Tollgate Gardens – The £1.8m slippage is due to delay in completing buyback of units for Tollgate Gardens. A Letter of Intent is underway that provides pre-construction services under the development agreement. Buy-backs are expected to re-commence in mid-2016 so the unspent budget will be carried forward to meet the buyback costs.
- Parsons North – The £0.7m slippage is due to delay in securing a development partner. The unspent budget will be carried forward to meet project commitments.
- Luton Street – The £0.6m slippage is due to delay in completing enabling works. The unspent budget will be carried forward to meet project commitments

Others

- 6.6 The £9.1m variance mainly relates to slippage related to Ashbridge £6.9m and the Infill scheme £0.5m as both these projects are slow to start plus slippage for the Self financing scheme £1m all of which are to be carried forward to 2016/17. The planned acquisitions for Dudley House and Moberly/Jubilee are now complete and no further costs are expected in the HRA. The Edgware Road redevelopment is being re-scoped and reports an underspend.

7 Balance Sheet

- 7.1 The Balance Sheet net assets moved from £1.777bn in 2014/15 to £1.898bn in 2015/16. This is mainly due to cash/investment balances increasing year on year and liabilities decreasing following a reduction in short term borrowing and revenue receipts in advance.
- 7.2 There was an increase in the Council's fixed asset base due to capital expenditure incurred in Westminster's City for All capital programme.

A summary position is shown in **Table 3** overleaf:

Table 3 – Balance Sheet Summary

31 March 2015		31 March 2016	Movement
£'000		£'000	£'000
ASSETS			
<u>Non-current</u>			
1,937,025	Property, plant and equipment	1,952,377	15,352
42,746	Heritage assets	42,746	-
402,880	Investment property	405,269	2,389
2,394	Intangible assets	1,830	(564)
40,773	Long-term investments	45,916	5,143
24,573	Long-term debtors	12,394	(12,179)
2,450,391	Total long term assets	2,460,532	10,141
<u>Current</u>			
344,685	Short-term investments	514,833	170,148
316	Inventories	235	(81)
122,302	Short-term debtors	137,666	15,364
252,942	Cash and other cash equivalents	117,580	(135,362)
1,950	Assets held for sale	2,250	300
722,195	Current assets	772,564	50,369
LIABILITIES			
33,902	Short-term borrowing	2,109	(31,793)
266,481	Short-term creditors	259,931	(6,550)
55,391	Revenue receipts in advance	6,151	(49,240)
355,774	Current Liabilities	268,191	(87,583)
221	Long-term creditors	202	(19)
120,725	Provisions	153,936	33,211
251,520	Long-term borrowing	251,465	(55)
641,746	Other long-term liabilities	605,540	(36,206)
25,157	Capital receipts in advance	55,388	30,231
1,039,369	Long-term liabilities	1,066,531	27,162
1,777,443	Net assets	1,898,374	120,931

8. Cashflow Outturn

- 8.1 The Council's level of cash and cash equivalents (that is, investments that mature in no more than three days) moved from £252.9m in 2014/15 to £117.8m in 2015/16.
- 8.2 There was a net outflow of £173m as the Council used its cash reserves to make short-term investments (less than one year). This was offset by capital receipts in £86m for use by the Council for investment in its capital programme.

9. Pensions

- 9.1 The Pension Fund annual accounts for 2015/16 were produced and submitted to the same timescales as the council's main accounts. As at the 31 March 2016, the market value of the Fund was £1.066m compared to £1.099m at the start of the financial year. This reduction of £33m can largely be attributed to the disinvestment of assets to cover cash flow requirements. There is a monthly shortfall of £1.5m-£2m which is required to pay the pension benefits and this led to a withdrawal of assets amounting to £25m over the year.
- 9.2 The Fund consists of approximately 70% allocation to equities. Over the final quarter of the year, equity markets have been particularly volatile with the MSCI World index falling more than 11% between the start of 2016 and mid-February, before rebounding to end the quarter down -1.96%. There were no changes to the fund managers during the year.
- 9.3 The Fund's actuary, Barnett Waddingham, estimate the net liability of the Fund as at 31 March 2016 to be £501m compared to £517m the previous year. Their estimate of the duration of the Fund's liabilities is 17 years.

10. Objections

- 10.1 At the start of 2014/15 the Council had two objections outstanding. During the year both of these objections were decided upon by KPMG LLP enabling the authority's accounts for the years 2008/09, 2009/10, 2010/11 and 2011/12 to be certified. In January 2016 a new objection was accepted by the authority's new external auditor, Grant Thornton UK LLP. This new objection related to the provision of car parking enforcement on housing estates managed by City West Homes and covers the years 2012/13, 2013/14 and 2014/15.
- 10.2 The auditor received representations from the Council on the matter and sought to ascertain comments from the objector on those representations. At this point the objector withdrew the final outstanding objection citing a considerable improvement in the engagement with the inspection process and timely responses to both the objector and the external auditors by the Council. Grant Thornton subsequently provided certification for the 3 outstanding years to 2014/15 meaning there are no outstanding objections for the Council and new objections can only relate to the 2015/16 financial year.
- 10.3 The inspection period for the 2015/16 financial year began on the 3rd of June 2016 and runs to 4.30pm on the 14th of July 2016. No objection may be made unless the auditor has previously received written notice of the proposed objection, specifying the facts on which the objector relies and the grounds on which the objection is being made. A copy of that written notice must also be sent to the Council. At the time of dispatching this report, no indications of objection have been received. Should one be received and accepted between dispatch of this report and the deadline on the 14th of July 2016 then the Committee will be verbally updated and the 2015/16 accounts cannot be certified until the issue is resolved.

11. Financial Management Quality Transformation

- 11.1 The Council's accounts represent one outcome from the financial management transformation work that is continuing. This will underpin the work of the Council as well as ensuring compliance with statutory requirements, budget management and excellent financial practice.
- 11.2 In support of this approach a series of further improvements have been brought about:
- Lessons learned from 2014/15 were identified and implemented in this year's timetable which was rolled out for period 5 as a partial hard closedown and then monitored and updated throughout the year. This enabled us to identify new requirements such as the implementation of IFRS13 'Fair Value measurement' early and establish a strategy for its successful implementation.
 - The Core Statements and a number of notes can now be generated automatically from the Trial Balance. This reduction in the production time means more attention can be spent interrogating and reviewing the figures which underpin the statements.
 - An enhanced Quality Assurance process which ensured all working papers were produced in a standardised way to enable consistency and accuracy through a centralised QA team.
 - A number of training courses on technical issues were run throughout the year as well as more informal sessions run by WCC staff. These covered areas including technical accounting issues, to working paper production and Agresso training.
 - The asset register was moved onto a cloud based platform significantly improving performance. This enabled a reduction in days of the processes required in uploading year end information significantly contributing towards the faster close.
- 11.3 Using project management disciplines the Council has developed a highly detailed action plan, defined roles and responsibilities, a communication and stakeholder management plan, risk management and progress reporting.
- 11.4 There have been a series of improvements in the 2015/16 accounts themselves. Some examples of matters improved during 2015/16 which in previous years had not been dealt with to the same standard are noted below:
- "de-cluttering" of the accounts, removing those items which are of a non-material nature or do not help to clarify for users of the document.
 - The order of the notes has been amended to help improve the flow of the document. Notes are now ordered based on which Core statement they relate to in order to aid the reader of the accounts.

- A full review of service concessions and similar contracts has taken place to reclassify reference to PFI schemes.
- Inclusion of a “Narrative Report”, replacing the Explanatory Forward.
- More detailed disclosure of material items of income and expenditure
- Improved formatting of draft accounts, so there is minimal difference between the version first presented to audit and that posted online as the final design version.

11.5 Work to drive forward quality further in 2016/17 will be further prioritised.

12. Accounts process

12.1 The Council prepared its final accounts for 2015/16 and submitted them to the Council’s external auditors, Grant Thornton, for audit on 9th April 2015. This is a full 12 weeks in advance of the statutory requirement of the 30 June.

12.2 The Council has very significantly improved the quality and the timeliness of its accounts. This has been achieved through the financial transformation programme that was put in place for 2014/15 and which has continued into 2015/16 and which will continue going forward.

12.3 The accounts are shown as the Appendix 1 and contain full detail of the Authority’s finances for the year. At the date of this report these are in the process of being audited with no issues identified to date.

12.4 The Authority has continued accelerating the timeliness of its closedown process and simultaneously targeting improving the quality of its final accounts preparation.

12.5 In recent prior years the date that the Authority has submitted its accounts for audit has been as follows:

- 2012/13 30th June 2013
- 2013/14 19th May 2014
- 2014/15 16th April 2015
- 2015/16 9th April 2016

13. External Audit

13.1 The audit findings report submitted on the 12th May 2016 identified a small number of items which were being finalised by external audit. Since this report those items can be updated

13.2 Critical judgements made by management and the PWC IAS19 disclosures were submitted and reviewed by external audit. These were agreed as appropriate.

13.3 Final sample testing was completed and a review of the revised trial balance to the financial statements confirmed that no changes were required to the figures presented on the 12th May to committee.

- 13.4 The management letters of representation for the Council and the Pension fund are included within the papers to this meeting in Appendices 2 and 3.
- 13.5 The Whole of Government Accounts audit work is due to be carried out in September/October in line with prescribed timelines for completion.
- 13.6 The final audit findings reports for the Council and the Pension fund are included as Appendices 4 and 5.

14. Recommendation to Committee

- 14.1 That the Audit and Performance Committee formally approve the 2015/16 accounts.
- 14.2 The Audit and Performance Committee notes that the pension fund annual report was reported to Pensions Committee on 21 June 2016. The Committee agreed to delegate approval of the final Pension Fund Annual Report 2015-16 document to the Tri-Borough Director of Treasury and Pensions, in consultation with the Chairman.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact Steven Mair 020 7641 2904

BACKGROUND PAPERS

Appendix 1

Westminster City Council Statement of Account including Pension Fund Accounts 2015/16

See link below:

http://transact.westminster.gov.uk/docstores/publications_store/accounts/annual_accounts_2015_16.pdf

Appendix 2

Management letter of representation for Westminster City Council

Appendix 3

Management letter of representation for Westminster City Council Pension Fund

Appendix 4

Grant Thornton audit findings report 2015/16 for Westminster City Council

Appendix 5

Grant Thornton audit findings report 2015/16 for Westminster City Council Pension Fund



Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Steven Mair
City Treasurer

Tel: 020 76412904
smair@westminster.gov.uk

Date: 14th July 2016

Dear Sirs

Westminster City Council - Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with the audit of the financial statements of Westminster City Council for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

- i We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ("the Code"); which give a true and fair view in accordance therewith.
- ii We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.
- iii The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- iv We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- v Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. In particular, we confirm that the management assumptions used in making the business rates provision and the valuation of property, plant and equipment and investment properties are reasonable.
- vi We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.



- vii Except as disclosed in the financial statements:
- a there are no unrecorded liabilities, actual or contingent
 - b none of the assets of the Council has been assigned, pledged or mortgaged
 - c there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
- viii We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.
- ix Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
- x All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
- xi Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
- xii We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.
- xiii We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end.
- xiv We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.
- xv We believe that the Council's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements.

Information Provided

- xvi We have provided you with:
- a access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b additional information that you have requested from us for the purpose of your audit; and
 - c unrestricted access to persons within the Council from whom you determined it necessary to obtain audit evidence.
- xvii We have communicated to you all deficiencies in internal control of which management is aware.



- xviii All transactions have been recorded in the accounting records and are reflected in the financial statements.
- xix We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- xx We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Council involving:
 - a management;
 - b employees who have significant roles in internal control; or
 - c others where the fraud could have a material effect on the financial statements.
- xxi We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Council's financial statements communicated by employees, former employees, regulators or others.
- xxii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- xxiii We have disclosed to you the identity of all the Council's related parties and all the related party relationships and transactions of which we are aware.
- xxiv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xxv We have provided all information relating to the managed services arrangement in full.

Annual Governance Statement

xxvi We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Statement

xxvii The disclosures within the Narrative Statement fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council's Audit and Performance Committee at its meeting on 14 July 2016.

Yours faithfully

Name.....
Position.....
Date.....



Name.....
Position..... *C.M. TREASURER*
Date..... *14.07.11*.....

Signed on behalf of the Council

**Appendix 1 – Unadjusted misstatement**

Unadjusted misstatement	Reason for not adjusting
<p>Westminster Community Homes (WCH) The Council incorporated the unaudited figures from the draft Westminster Community Homes accounts in draft Council accounts. The audit of the WCH has now finished and the profit and net assets figures in the audited accounts are different by an amount greater than our trivial level:</p> <p>Profit draft WCH accounts £2,703k audited WCH accounts £1,760k difference of £943k</p> <p>Net assets draft WCH accounts £13,990k audited WCH accounts £12,379k difference of £1,611k</p> <p>As the differences identified are well below our materiality level and the amendments to the Westminster City Council accounts are throughout the primary statements and disclosure notes the Council has chosen not to adjust these items and we have accepted this reason.</p>	<p>Not material change as a consequence of subsidiary audit being completed after the council's main accounts produced and audited.</p>



Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Steven Mair
City Treasurer

Tel: 020 76412904
smair@westminster.gov.uk

Date: 14th July 2016

Dear Sirs

City of Westminster Pension Fund
Financial Statements for the year ended 31 March 2016

This representation letter is provided in connection with your audit of the financial statements of City of Westminster Pension Fund ('the Fund') for the year ended 31 March 2016 for the purpose of expressing an opinion as to whether the financial statements show a true and fair view of the financial transactions of the Fund during the year ended 31 March 2016, and of the amount and disposition at that date of its assets and liabilities, in accordance with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 ('the Code').

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

1. We have fulfilled our responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code; which give a true and fair view in accordance therewith, and for keeping records in respect of contributions received in respect of active members.

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

2. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities



that could have a material effect on the financial statements in the event of non-compliance.

3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
5. We acknowledge our responsibilities for making the accounting estimates included in the financial statements. Where it was necessary to choose between estimation techniques that comply with the Code, we selected the estimation technique considered to be the most appropriate to the Fund's particular circumstances for the purpose of giving a true and fair view. Those estimates reflect our judgement based on our knowledge and experience about past and current events and are also based on our assumptions about conditions we expect to exist and courses of action we expect to take.
6. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements. There are no other material judgements that need to be disclosed.
7. Except as disclosed in the financial statements:
 - a. there are no unrecorded liabilities, actual or contingent
 - b. none of the assets of the Fund have been assigned, pledged or mortgaged
 - c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.
8. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the Code.
9. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of the Code.
10. All events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed.
11. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The



financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

12. We believe that the Fund's financial statements should be prepared on a going concern basis on the grounds that current and future sources of funding or support will be more than adequate for the Fund's needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.
13. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Information Provided

14. We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons from whom you determined it necessary to obtain audit evidence.
15. We have communicated to you all deficiencies in internal control of which management is aware.
16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
17. All transactions have been recorded in the accounting records and are reflected in the financial statements.
18. We have disclosed to you all our knowledge of fraud or suspected fraud affecting the Fund involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the financial statements.



- 19. We have disclosed to you all our knowledge of any allegations of fraud, or suspected fraud, affecting the Fund's financial statements communicated by employees, former employees, analysts, regulators or others.
- 20. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.
- 21. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.
- 22. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.
- 23. We have disclosed to you the identity of all the Fund's related parties and all the related party relationships and transactions of which we are aware.
- 24. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Approval

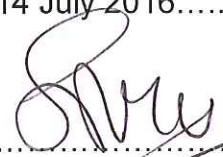
The approval of this letter of representation was minuted by the Council's Audit and Performance Committee at its meeting on 14 July 2016.

Yours faithfully

Name.....

Position...Chair of the Audit and Performance Committee.....

Date 14 July 2016.....

Name.....


Position...City Treasurer

Date 14 July 2016.....

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

The Audit Findings for Westminster City Council

Year ended 31 March 2016

July 2016 (updated from May 2016 version)

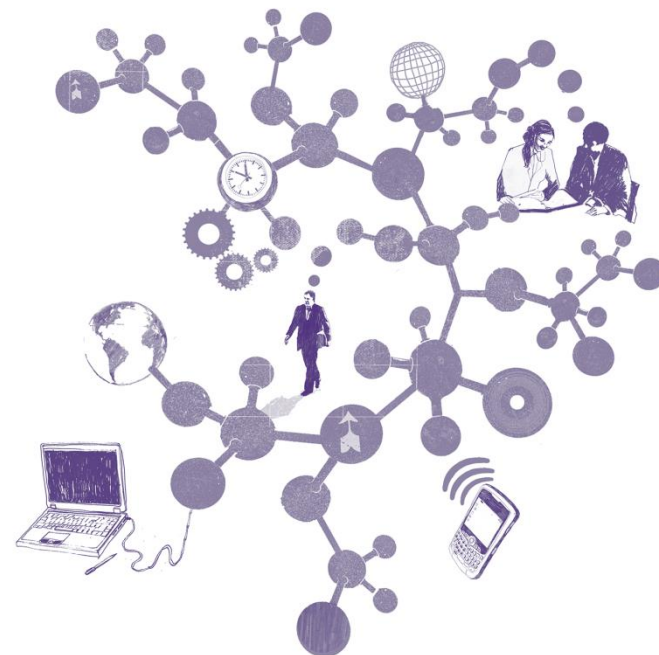
Page 29

Paul Dossett
Engagement Lead
T 020 7728 3180
E Paul.Dossett@uk.gt.com

Elizabeth Olive
Engagement Manager
T 020 7728 3329
E Elizabeth.L.Olive@uk.gt.com

Rufaro Dewu
Support Manager
T 0207 728 3240
E rufaro.k.dewu@uk.gt.com

Keyasha Pillay
In-Charge Auditor
T 0207 728 2494
E keyasha.pillay@uk.gt.com



Westminster City Council
Westminster City Hall
64 Victoria Street
LONDON
SW1E 6QP

14 July 2016

Dear Sirs

Audit Findings for Westminster City Council for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of Westminster City Council, the Audit and Performance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Paul Dossett
Engagement lead

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

T +44 (0) 207
www.grant-thornton.co.uk

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	4
2. Audit findings	8
3. Value for Money	23
4. Other statutory powers and duties	30
5. Fees, non-audit services and independence	32
6. Communication of audit matters	34

Appendices

- A Action plan
- B Audit opinion

Section 1: Executive summary

Page 32

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of Westminster City Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting. .

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance.

We are required to carry out sufficient work to satisfy ourselves on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').

Auditor Guidance Note 7 (AGN07) clarifies our reporting requirements in the Code and the Act. For audited bodies, other than health service bodies, we are required to provide a conclusion that in all significant respects, the audited body has (or has not) put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The Act also details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- a public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);

- written recommendations which should to be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

Introduction

In the conduct of our audit we have changed our audit approach which we communicated to you in our Audit Plan dated 3 February 2016. As part of the financial statements planning we identified the provision for national non-domestic rates as an **additional** significant risk and enhanced the level of testing planned on the provision in line with the ISA requirements. The increased level of risk following receipt of the draft accounts was due to the material movement in the NNDR provision.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- reviewing the final version of the accounts
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on 9 April 2016 which is nearly three months ahead of the statutory deadline for Local Authorities. We received the majority of the working papers for the commencement of our audit visit. The Council has proactively managed the risks arising from the managed services contract during the year by carrying out extensive sample testing of the transactions and working with BT to correct data issues and strengthen the controls in the ledger. This enabled them to meet the early close timetable.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Council's reported financial position (details are recorded in section two of this report). The draft and audited financial statements for the year ended 31 March 2016 recorded net expenditure of £283,563k. We have recommended a small number of disclosure amendments to improve the presentation of the financial statements.

The key messages arising from our audit of the Council's financial statements are:

- the Council prepared a good quality set of de-cluttered draft accounts for audit by 9 April 2016
- the supporting working papers were of a high quality
- as part of the accounts preparation a small number of entries in the draft financial statements were not entered in to the ledger; the Council processed these journals before the final version of the accounts was produced
- disclosure around the critical judgements made by management in preparing the financial statements have been enhanced in the final version.

Further details are set out in section two of this report.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes:

- whether the Narrative Report meets the requirements of the CIPFA Code and is consistent with the audited financial statements
- if the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit.

Controls

Roles and responsibilities

The Council's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Council.

Findings

We draw your attention in particular to control issues identified in relation to:

- cross entity journals for Westminster City Council have been posted during 2015/16 (which balance across the tri-borough ledger but have to be reconciled back to the impact on Westminster)
- a number of journals have not been processed through the ledger before the draft accounts were provided to audit

Further details are provided within section two of this report.

Value for Money

Based on our review, we are satisfied that, in all significant respects, the Council had proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.

Further detail of our work on Value for Money are set out in section three of this report.

Other statutory powers and duties

During the course of our audit we were informed of an issue that has given rise to an objection under the Audit Commission Act 1998 in respect of prior year financial statements that have not yet been formally closed.

We worked with a local elector to decide upon an objection relating to the 2012/13 to 2014/15 financial statements and formally closed these audit years in May 2016.

As at 1 July 2016, we have not received any formal objections to the 2015/16 financial statements. We will update you on the conclusion reached at the July Audit and Performance Committee.

Further details of our work on other statutory powers and duties is set out in section four of this report.

The way forward

Matters arising from the financial statements audit and our review of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources have been discussed with the City Treasurer.

We have also discussed the issues arising from our additional statutory powers and duties with the City Treasurer during the year.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the City Treasurer and the finance team.

Acknowledgement

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

Grant Thornton UK LLP
May 2016

Section 2: Audit findings

Page 36

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £13,910k (being 1.5% of gross revenue expenditure). We have considered whether this level remained appropriate during the course of the audit and have revised our overall materiality to £15,344k in line with the increase in gross revenue expenditure in 2015/16 (remaining as 1.5% of gross revenue expenditure).

We also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts with a balance sheet value in excess of £1billion and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £695k. Our assessment of the value of clearly trivial matters has been adjusted to reflect our revised materiality calculation.

As we reported in our audit plan, we did not identify any items where we decided that separate materiality levels was appropriate. There has been no change to this decision for the financial statements audit.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1. Page 38	<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 ISA240 and the nature of the revenue streams at Westminster City Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition in the Council is limited • the culture and ethical frameworks of local authorities, including Westminster City Council, mean that all forms of fraud are seen as unacceptable. <p>There is an increased risk for revenue recognition related to the managed service contract which we have addressed under the separate significant risk.</p>	<p>Our audit work has not identified any issues in respect of revenue recognition.</p>
2.	<p>Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of entity controls in relation to journal transactions • Testing of journals entries • Review of accounting estimates, judgements and decisions made by management • Review of unusual significant transactions 	<p>Our audit work has not identified any evidence of management over-ride of controls. However, our review of journal controls and testing of journal entries has identified a weakness in the system:</p> <ul style="list-style-type: none"> • cross entity journals can be raised across the tri-borough councils <p>In addition, the Council implemented a manual authorisation process for journals during the closedown period. Our testing has not identified any errors in the authorisation of these journals.</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 39	<p>3. Valuation of property, plant and equipment (PPE) The Council revalues its assets on a rolling basis over a five year period although for 2015/16 it requested that the current valuer review a sample of assets from the 4th and 5th year of the valuation cycle to ensure they were materially fairly stated. The Code requires that the Council ensures that the carrying value at the balance sheet date is not materially different from current value. This represents a significant estimate by management in the financial statements.</p> <p>The CIPFA Code of Practice has implemented IFRS 13 for the 2015/16 financial statements. The Council is required to include surplus assets within property, plant and equipment in its financial statements at fair value, as defined by IFRS13. The basis on which fair value is defined for investment property is also different to that used in previous years. This represents a significant change in the basis for estimation of these balances in the financial statements. There are also extensive disclosure requirements under IFRS 13 which the Council needs to comply with.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Review of management's processes and assumptions for the calculation of the estimate • Review of the competence, expertise and objectivity of any management experts used • Review of the instructions issued to valuation experts and the scope of their work • Discussions with the Council's valuer about the basis on which the valuation was carried out, challenging the key assumptions • Review and challenge of the information used by the valuer to ensure it was robust and consistent with our understanding • Testing of revaluations made during the year to ensure they were input correctly into the Council's asset register • Review of the disclosures made by the Council in its financial statements to ensure they are in accordance with the requirements of the CIPFA Code of Practice and IFRS13 • Evaluation of the assumptions made by management for those assets not revalued during the year and how management satisfied themselves that these were not materially different to current value 	<p>Our audit work has not identified any significant issues in respect of the PPE valuation risk.</p> <p>We have identified an error in Other Land & Buildings General Fund cost of valuation section as a £17m asset was duplicated and two pieces of land totalling £0.9m were incorrectly included in the asset register and note 21C. See table on page 22 for further information.</p> <p>Our testing of investment properties identified an error in one of the asset numbers provided to the valuer. As all investment properties were valued in the year there is no misstatement in the overall valuation in the financial statements. However, there is an error at the individual asset level in the FAR.</p>

Audit findings against significant risks continued

We have also identified the following significant risk of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>4.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 40</p>	<p>Managed services partnership</p> <p><i>Risk of incomplete transfer of data from the old system to the new system</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • Gained an understanding of the Council's relationship with the managed service provider for the service issues currently being faced in delivering the expected contractual commitments for the council • Reviewed the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT • Reviewed the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 • Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion • IT audit review of the general controls in operation in the financial ledger and overall IT control environment. IT assurance over the completeness of the ledger • Substantive testing of all items in the financial statements that are greater than tolerable error set for the Council accounts 	<p>The Council has proactively managed the system and service delivery issues throughout the 2015/16 financial year. Officers of the Council have regularly visited the BT offices to ensure that improved system controls are implemented and BT staff have the required knowledge about Local Authority accounting. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit & Performance Committee to update TCWG on progress being made to improve service delivery for the year end.</p> <p>The Council identified that there were significant issues with the transactional processing in the system and undertook extensive appropriate sample checking to ensure corrective action was taken by BT. In addition, they took action to mitigate the key error areas by performing manual processes locally for monitoring the financial information during the year. The finance team reviewed 16 key financial transactional / processing areas during November, February and April to cover the full financial year. The level of errors in the transactional testing by year end had significantly reduced due to the enhanced control environment after the November testing had been fed back to BT. Due to the work of officers to give the s151 officer confidence in the data in the GL, the Council were able to deliver the draft accounts in line with their ambitious closedown timetable.</p> <p>Internal Audit carried out a review of the finance testing and concluded that a robust process had been followed. The Head of IA Opinion is "the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as 'amber' and 'red' all of which have been reported to A&PC".</p> <p>Management acknowledges in the Annual Governance Statement that there is the likelihood of error remaining in the GL and that further work is needed in 2016/17 to ensure service provision is at the required level.</p> <p>Our IT colleagues have carried out assurance work over the completeness of the transactions in the ledger with BT and Council officers. We obtained assurance that the 2015/16 ledger was complete which enabled us to select samples for testing.</p> <p>Our audit work has not identified any significant issues in relation to the managed services risk. We have identified internal control weaknesses in relation to journal procedures and reported these in the Internal Control section of this report (page 20).</p>

New issues and risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan.

We identified a new significant risk during the financial statements planning process. The increased level of risk following receipt of the draft accounts was due to the material movement in the NNDR provision.

	New risk identified	Work completed	Assurance gained and issues arising
Page 41	<p>1. Provision for National Non-Domestic Rates (Business Rates) – SIGNIFICANT RISK</p> <ul style="list-style-type: none"> The Council's provision for business rates is the largest in the country and is a highly material balance in the financial statements. The provision is based on significant judgements made by management and uses a complex estimation technique to prepare the provision. The Council collected £1.747 billion in business rates in 2015/16. The provision in the 2015/16 financial statements increased by £96m during the year (Collection Fund Accounts Note 3). The Council's share of the business rates collected and provision is 30% which equates to a total provision of £117.9 million (Note 32). 	<ul style="list-style-type: none"> Review of management's processes and assumptions for the calculation of the estimate Testing of the calculation and agreement to supporting documentation Review of the disclosures made by the Council in its financial statements 	<p>We have received managements judgements and assumptions made in calculating the provision and confirm we are satisfied that the provision is materially fairly stated and the assumptions made are reasonable.</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.



Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Employee remuneration Page 42	Employee remuneration accruals understated (Remuneration expenses not correct)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantive sampling of payroll system to payslips and contractual records reconciled the total pay per the payroll system to the general ledger 	Our audit work has not identified any significant issues in relation to the risk identified.
Operating expenses	Creditors understated or not recorded in the correct period (Operating expenses understated)	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding substantive sampling of payments throughout the year and year end creditors testing for unrecorded liabilities 	Our audit work has not identified any significant issues in relation to the risk identified.
Welfare expenditure	Welfare benefit expenditure improperly computed	We have undertaken the following work in relation to this risk: <ul style="list-style-type: none"> documented our understanding of processes and key controls over the transaction cycle undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding sample testing of welfare benefits expenditure reviewed the year end reconciliation between the housing benefits system and the general ledger 	Our audit work has not identified any significant issues in relation to the risk identified. Our testing has identified one fail in the rent allowance benefits testing. There is no impact on the expenditure recorded in the financial statements so we have concluded the statements are materially fairly stated. We will follow up the error as part of the Housing Benefit claim work later in the year.

Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services	<p>We have discussed the implementation issues of the general ledger and the mitigating actions taken by management in our monthly liaison meetings with the finance team.</p> <p>We have set out our conclusions of the management response to the risks identified in the system during the financial year against the Managed Services significant risk on page 10.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Council's financial statements.

Accounting area	Summary of policy	Comments	Assessment
<p>Revenue recognition</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 44</p>	<ul style="list-style-type: none"> Revenue (income) from the sale of goods and provision of services is recognised when the Council transfers the goods or completes delivery of a service. Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: <ul style="list-style-type: none"> (i) The Council will comply with the conditions attached to the payments; and (ii) The grants or contributions will be received. 	<ul style="list-style-type: none"> The Council's accounting policy is appropriate under IAS 18 Revenue and CIPFA's Code of Practice on Local Government Accounting in the UK 2015/16 There is limited judgement involved in recognising income in the financial statements. Debtors are supported by invoices and income accruals are only created where income is certain to be collected or where adequate provision will be made for non-recovery Our testing of government grants and contributions has not identified any instances of improper revenue recognition. 	<p style="text-align: center;"> Green</p>
<p>Judgements and estimates</p>	<p>Critical judgements include:</p> <ul style="list-style-type: none"> going concern review recognition of school assets whether group accounts should be prepared tri-borough working arrangements <p>Key estimates include:</p> <ul style="list-style-type: none"> PPE – useful lives and valuation pensions liability business rates provision fair value estimations 	<ul style="list-style-type: none"> Critical judgements and estimation uncertainty are disclosed in notes 3 and 4 respectively of the financial statements We have requested that management enhances the disclosure within note 3 to set out the judgements in greater detail for the school assets and group accounts considerations. 	<p style="text-align: center;"> Green</p>




Assessment

 Marginal accounting policy which could potentially attract attention from regulators

 Accounting policy appropriate but scope for improved disclosure

 Accounting policy appropriate and disclosures sufficient

Accounting policies, estimates and judgements continued

Accounting area	Summary of policy	Comments	Assessment
Judgements - local authority maintained schools premises	The Council has set out its judgement for schools accounting in Note 3. It recognises Community Schools on its Balance Sheet and has not recognised assets relating to Academies, Voluntary Aided, Voluntary Controlled or Free schools as it is of the opinion that these assets are not controlled by the Council.	The Council has included in the revised financial statements an expanded disclosure of their judgements made over schools consolidation that more fully reflects the decisions taken.	 Green
Going concern	Management has a reasonable expectation that the services provided by the Council will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed the Directors' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	 Green
Other accounting policies	We have reviewed the Council's policies against the requirements of the CIPFA Code and accounting standards.	The Council's accounting policies are appropriate and consistent with previous years. We have not identified any issues which we wish to bring to your attention.	 Green

Page 45

Assessment

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Committee and been made aware of all frauds occurring during the year. None of which were of a significant nature to impact on our audit opinion. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation will be requested from the Council for July 2016. The unadjusted misstatement is included as an appendix. In particular, representations have been requested from management in respect of the significant assumptions used in making accounting estimates for <ul style="list-style-type: none"> Business rates provision Valuation of property, plant and equipment and investment properties All information relating to the managed services has been provided to us in full.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to the custodian, fund managers, bank and borrowing institutions. This permission was granted and the requests were sent. The majority of these requests were returned with positive confirmation, however 4 requests from the fund managers and 5 from borrowing institutions have not been received so we undertook alternative procedures, including reviewing the year end statements sent to the Council to confirm the balance as at 31 March 2016.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.

Page 46

Other communication requirements continued

	Issue	Commentary
7.	Matters on which we report by exception	<ul style="list-style-type: none"> • We are required to report on a number of matters by exception in a number of areas: <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit • The information in the Narrative Statement is materially inconsistent with the information in the audited financial statements or apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group/Council acquired in the course of performing our audit, or otherwise misleading. • We have not identified any issues we would be required to report by exception. We have requested a small number of enhancements to the Narrative Statement.
8.	Specified procedures for Whole of Government Accounts	<ul style="list-style-type: none"> • We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we are required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. • The WGA consolidation pack is due to be submitted in July 2016. We will audit the pack in order to meet the reporting deadline of end September 2016.



Page 47

Internal controls



The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for the significant and other risks identified (Employee Remuneration, Operating Expenses and Welfare Benefits) as set out on pages 10-14 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1. Page 48	 Deficiency	<ul style="list-style-type: none"> The Agresso accounting system allows for cross entity journals to be posted so that the debits and credits are not equal within the Westminster City Council ledger. The journals balanced over the tri-borough general ledger as the system allows for journals to be posted across the three councils / pension funds 	<ul style="list-style-type: none"> Cross entity journals should be prevented from being posted in the ledger
3.	 Deficiency	<ul style="list-style-type: none"> A small number of journals were not processed through the ledger before the draft accounts were provided to audit. The Council has posted the journals and provided a revised trial balance for audit. 	<ul style="list-style-type: none"> All journals should be processed through the ledger before the financial statements are submitted to audit

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Account £'000	Balance Sheet £'000	Reason for not adjusting
<p>1 Westminster Community Homes (WCH) The Council incorporated the unaudited figures from the draft Westminster Community Homes accounts in draft Council accounts. The audit of the WCH has now finished and the profit and net assets figures in the audited accounts are different by an amount greater than our trivial level:</p> <p>Profit draft WCH accounts £2,703k audited WCH accounts £1,760k difference of £943k (this is included in the net assets difference below)</p> <p>Net assets draft WCH accounts £13,990k audited WCH accounts £12,379k difference of £1,611k (this amendment would be to the assets and reserves so nil impact overall)</p> <p>As the differences identified are well below our materiality level and the amendments to the Westminster City Council accounts are throughout the primary statements and disclosure notes the Council has chosen not to adjust these items and we have accepted this reason.</p>			<p>Not material change as a consequence of subsidiary audit being completed after the council's main accounts produced and audited.</p>
Overall impact	£ Nil	£ Nil	

Page 49

Adjusted misstatements, misclassifications and disclosure changes

The table below provides details of adjusted misstatements, misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification	50,436	Revaluations (Note 21B)	Assets under construction which have been completed in the year and transferred to other asset categories and additions in year have been disclosed as revalued in the note. As the assets are not revalued in 2015/16 they should be disclosed in the 'held at historic cost' line with narrative below the table explaining the amounts. Amendments to historic cost and from 31 March 2016 are: Other Land and Buildings (HRA) of £42,929k and Other Land Buildings (GF) of £7,506k.
2 Disclosure	N/A	Revaluations (Note 21B)	The explanation for council dwellings valuation process has been updated to reflect the actual valuation approach for 2015/16, including the date and type of valuation used for the closing balance.
3 Adjusted misstatement	17,712	Property, Plant and Equipment (Note 21C)	The note and asset register includes a duplicate asset totalling £17m and a piece of land totalling £0.712m that relates to an asset already transferred off the Balance Sheet. The draft note accounted for the removal of these assets as a downward revaluation in the revaluation reserve and CIES whereas it should have been shown as an 'Other Movement in Cost or Valuation'. Accumulated depreciation totalling £0.9m has also been amended. A narrative description of the movement has also been added to the note.
4 Disclosure	Various	Financial Instruments (Note 24)	The Fair Value of Financial Assets and Liabilities disclosure did not include a finance lease totalling £4m in the carrying value of the finance lease liabilities. This understatement affected the 2014/15 and 2015/16 disclosure. The cash and cash equivalents balance of £117m had been excluded from the Categories of Financial Instruments table. This balance has now been included in the 'Loans and receivables' line. Also, the cash element of the balance (£32m) had been excluded from the Fair Value of assets and liabilities table. This has now been amended. The cash equivalents of £85m had been correctly included.

Section 3: Value for Money

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non-audit services and independence

06. Communication of audit matters

Page 51

Background

We are required by section 21 of the Local Audit and Accountability Act 2014 (the Act) and the NAO Code of Audit Practice (the Code) to satisfy ourselves that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. The Act and NAO guidance state that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2015. AGN 03 identifies one single criterion for auditors to evaluate:

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

AGN03 provides examples of proper arrangements against three sub-criteria but specifically states that these are not separate criteria for assessment purposes and that auditors are not required to reach a distinct judgement against each of these.

Risk assessment

We carried out an initial risk assessment in February 2016 and identified one significant risk in relation to the capital programme business case process which we communicated to you in our Audit Plan dated February 2016. We confirmed that following the completion of our detailed risk planning in April 2016 we had not identified any new significant risks.

We identified risks in respect of specific areas of proper arrangements using the guidance contained in AGN03.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We carried out further work only in respect of the significant risk we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Key findings

We set out below our key findings against the significant risk we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Work to address the risk	Findings and conclusions
<p>Significant capital projects The programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised that there was a weakness in arrangements and introduced a new business case process for all major schemes.</p>	<p>We reviewed the new business case arrangements for awarding capital programme expenditure to projects to establish whether the arrangements for identifying, managing and monitoring the project from the initial stage are appropriate.</p> <p>We reviewed one business case that has been going through the new process to date – refurbishment of Westminster City Hall.</p>	<p>The Council recognised the need for tighter controls around the capital programme as the level of projects and spend has significantly increased since the City for All plan was launched a year ago. The plan focuses on key regeneration plans to ensure the City continues to be a hotspot for business, retail and tourism. A new business case template for all major capital schemes was developed during the year. Three are three business case stages: strategic; outline; and full.</p> <p>The new template requires there to be greater scrutiny and information provided at the outline business case stage. We have reviewed the template and concluded that this stage has been split into the correct five key areas: strategic; economic; commercial; financial; and management. These areas ensure that all key information is provided to the Executive Director and Cabinet Member for making the decision about investment.</p> <p>The Council has a Capital Review Group which provides challenge and scrutiny of the business cases. This has an oversight of all capital schemes and monitors progress at the monthly meetings chaired by the Cabinet Member of Finance and Corporate Services. The ward member is also asked to be involved at the outline business case stage to ensure greater member and resident involvement in the scheme.</p> <p>One capital scheme has started to go through the outline business case model. The Westminster City Hall refurbishment programme case sets out clearly the options available to the decision maker with cost benefit and sensitivity analysis of these options. The case is thorough and has been shared with Cabinet Members to ensure robust scrutiny is given to it before the Cabinet meeting to make the final decision.</p> <p>To ensure there is sufficient guidance available, the major projects team has provided training to officers who will be completing the templates and on-going support will be provided by them as the Council recognises this is a major change in the way capital schemes are developed and managed.</p> <p>There were five key capital projects for 2015/16 and these were delayed as a decision was made to put all of them through the new business case process. This is the key reason for the capital programme slippage. This decision enables the Council to give full consideration and have a robust audit trail for projects in the future. The Council has also made a decision to only implement this for new projects and is not going back to review previous project cases. This is a reasonable approach as the level of capital investment was planned to be significantly higher from 2015/16 onwards.</p> <p>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements in place.</p>

Significant qualitative aspects

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

We have focused our work on the significant risk that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- the robustness of the new business case process (see findings on page 26)
- review of the financial outturn position for 2015/16 and financial planning for 2016/17
- review of the significant governance issues raised by the Council in the Annual Governance Statement 2015/16 to determine the impact on the overall vfm conclusion
- obtaining an update on the previous auditor conclusion findings.

Financial Outturn 2015/16

The Council planned for an underspend against budget throughout the financial year and delivered a revenue outturn position of +£5.54m. As a consequence of the strong financial monitoring during the year and delivery of an underspend, Cabinet have approved that the full amount is transferred in to the General Fund Reserves to increase the closing balance to £41.58m. This will provide the Council with on-going financial resilience which is important over the medium term to ensure the Council can meet the challenges it faces in setting the budget from 2018/19 and beyond. The predictions of an increasingly austere economic climate are in line with our expectations and the increase in the General Fund Reserves gives additional resilience to management and members.

The planned capital programme budget for 2015/16, including slippage from 2014/15, totalled £188.3m. During the financial year the Council recognised that this

level of capital spend would not be delivered due to the increased governance in the management of the capital programme (see significant risk findings) and the budget was revised downwards to a forecasted outturn of £75.46m at the end of January. The Council delivered an outturn position of £69.43m. This is a significant slippage from the original budget but was a decision during the year by management and members to ensure that the capital projects were given robust consideration to deliver value for money before project work began.

We do not have any concerns arising from the 2015/16 budget outturn position over the Council's arrangements for delivering economy, efficiency and effectiveness.

Financial Planning 2016/17

The Council approved the revenue and capital budgets in February 2016. The revenue budget covers a four year period (2016/17 to 2019/20) although the final year is high level predictions and the capital budget plans slightly further to 2020/21. The Council has identified a savings target of £117m for the three year period to 2018/19 allocated respectively as £33m, £34m and £50m. It has fully identified the savings plans for the coming year and is confident in the robustness of the plans for 2017/18. It has recognised that there is a budget gap for 2018/19 and that this year will be difficult to meet the financial challenges and service delivery as it has continued to deliver since 2010. The Council started to develop a 10 year view of its financial position during 2015/16 and is looking to enhance the predictions during the year to ensure the future challenges are met.

The Council has planned a balanced budget for 2016/17 with a contribution to the General Fund Reserves forecast at year end. A high level of the budget planning process and assumptions underpinning the budget gives assurance

that the process is robust and comprehensive, considering both the risks and opportunities at a strategic and operational level across the Council.

The Council's fully funded five year capital programme will deliver £1.72bn (gross spend) of projects to meet the City for All plan. The Council has significant regeneration projects planned over the period to help it maintain its business, retail, entertainment and tourism global recognition.

The Budget and Performance Task Group challenges the Cabinet Member and Executive Director in February over the assumptions and saving plans underpinning the 2016/17 budget figures. This process provides a good level of scrutiny to the budget before the Cabinet and Full Council approval. The group comprises of five councillors and is led by the Cabinet Member for Finance and Corporate Services.

We do not have any concerns arising from the 2016/17 financial planning process over the Council's arrangements for delivering economy, efficiency and effectiveness.

Annual Governance Statement 2015/16

The AGS has been reviewed as part of the opinion audit and we have not identified any non-compliance in the statement. The Council has recognised three significant governance matters for the coming financial year:

- **Managed Services:** we identified this as a significant risk for our audit opinion in 2015/16. We have set out our findings against this risk on page 12. We are satisfied that the Council has proactively managed the issues arising from the service delivery and has challenged the partner to deliver a higher quality service.
- **IT services:** Internal Audit review of the IT environment during the year

identified two areas of weakness in relation to third party remote access and multi-user logins. We carried out a review of the IT general control environment in April 2016 and did not identify any deficiencies that would impact on the audit opinion or overall conclusion of IT arrangements at the Council so we are assured that the action being taken by the Council has improved the control environment.

- **Procurement – Contracts Register (capitalSourcing):** the Council is proactively addressing the risk of information in the contracts register being out of date or incorrect by providing support and training to staff who use the system. The follow up review by Internal Audit at the end of the financial year indicated improved levels of compliance within the system.

We have reviewed these matters and concluded that none of the issues indicate an overall weakness in the Council's arrangements for delivering economy, efficiency and effectiveness nor its arrangements in all significant respects to ensure it delivered value for money in its use of resources.

Value for Money 2014/15 follow up

KPMG identified a weakness in relation to procurement. This emerged from objections relating to the Council's financial statements covering the financial years 2008/09 to 2011/12.

The weaknesses identified by KPMG were in relation to non-compliance with the proper procedures required by the Council's Procurement Code and internal financial regulations, in particular the processes for contract letting, contract variations and for formalising contract documentation. These weaknesses were identified in 2013/14 as part of the investigation in to the matters raised in the objections.

The Head of Procurement has made improvements to the procedures and processes during the year. The previous auditor was able to conclude the investigation and respond to the objections in early 2016. This led to the official closure of the 2008/09 to 2011/12 audit years in March 2016.

We do not have any concerns arising from the follow up of 2014/15 findings over the Council's arrangements for delivering economy, efficiency and effectiveness.

Page 56

Overall conclusion

Based on the work we performed to address the significant risks, we concluded that:

- the Council had proper arrangements in all significant respects to ensure it delivered value for money in its use of resources. The text of our report, which confirms this can be found at Appendix B.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendation for improvement as follows:

- Ensure that all new major capital projects go through the business case process and review the approach after the first project has gone through the full process
- Closely monitor the capital programme to ensure slippage levels are reduced in 2016/17
- Continue to identify revenue savings and efficiencies to ensure the budget gap in 2018/19 is delivered
- Continue to action the planned improvements in the weaknesses reported in the AGS

Management's response to these can be found in the Action Plan at Appendix A.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Any other matters

There were no other matters from our work which were significant to our consideration of your arrangements to secure value for money in your use of resources.

Section 4: Other statutory powers and duties

Page 58

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

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

	Issue	Commentary
1.	Public interest report	<ul style="list-style-type: none">• We have not identified any matters that would require a public interest report to be issued.
2.	Written recommendations	<ul style="list-style-type: none">• We have not made any written recommendations that the Council is required to respond to publicly.
3.	Application to the court for a declaration that an item of account is contrary to law	<ul style="list-style-type: none">• We have not used this duty.
4.	Issue of an advisory notice	<ul style="list-style-type: none">• We have not used this duty.
5.	Application for judicial review	<ul style="list-style-type: none">• We have not used this duty.

Page 59

During the course of our audit we were informed of an issue that had previously given rise to an objection under sections 26 and 27 of the Local Audit and Accountability Act 2014 in respect of prior year financial statements that have not yet been formally closed.

We worked with a local elector to decide upon an objection relating to the 2012/13 to 2014/15 financial statements and formally closed these audit years in May 2016.

As at 11 July 2016, we have not received any formal objections to the 2015/16 financial statements. We will update you on the conclusion reached at the July Audit and Performance Committee.

Section 5: Fees, non-audit services and independence

Page 60

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

We confirm below our final fees charged for the audit and provision of non-audit services.

Fees

	£
Council audit – scale fee	185,719
Council audit – additional fee	25,000
Grant certification	25,386
Objections from 2012/13 to 2014/15	25,000
Total audit fees (excluding VAT)	261,105

Additional fee

We have agreed an additional fee for the Council audit of £25,000 due to the additional work required to obtain assurance over the completeness of the general ledger and journals population.

Grant certification

Our fees for grant certification cover only housing benefit subsidy certification, which falls under the remit of Public Sector Audit Appointments Limited.

Fees in respect of other grant work, such as reasonable assurance reports, are shown under 'Fees for other services'.

Fees for other services

Service	Fees £
Audit related services:	
• Teachers pensions return	3,500
• Pooling of housing capital receipts	4,000
Non-audit services	
• Financial resilience capacity building programme	10,500

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 6: Communication of audit matters

Page 62

01. Executive summary

02. Audit findings

03. Value for Money

04. Other statutory powers and duties

05. Fees, non audit services and independence

06. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Council's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Council's key risks when reaching our conclusions under the Code.

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 communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Page 64
Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
Page 65	1. Cross entity journals should be prevented from being posted in the Agresso Ledger	Medium	<p>The standard journal process has built in controls which prevent cross entity posting. The issues experienced in year were as a result of the requirement to use a separate process to bypass the system performance issues. This was only in place for 5 weeks and has since been removed. The Council monitored transactions throughout this process which resulted in these items being identified and amended appropriately.</p> <p>For payroll related transactions there are controls in place to ensure each payroll run is reviewed before being finalised to ensure any potential cross entity transactions are identified and corrected. In addition there are also daily trial balance reports run to ensure the entity's overall trial balance is working correctly.</p>	Already in place – MSP/BT
	2. All journals should be processed through the ledger before the financial statements are submitted to audit	Medium	<p>The Council implemented a strategy of controlling the final few technical adjustments which meant a small number of journals had not been processed through the ledger at the end of the year. There is a clear audit trail available which details these items between the general ledger and the statement of accounts. The general ledger will be fully updated for these issues before audit sign off. In the Council's drive to improve the efficiency and automation of the accounts process the ledger will always be the source document used to produce the statements.</p>	On-going - Corporate Finance
	3. Ensure that all new major capital projects go through the business case process and review the approach after the first project has gone through the full process	Low	<p>The strategy now in place is for all major projects to be approved in this manner. The Council has regular review points in place to monitor projects throughout the process and a full review of projects on completion will provide an opportunity to review and improve the process.</p>	Already in place – Major Projects team

Appendix A: Action plan continued

Rec No	Recommendation	Priority	Management response	Implementation date & responsibility
4.	Closely monitor the capital programme to ensure slippage levels are reduced in 2016/17	Medium	The slippage experienced in 2015/16 was in the main due in a number of external factors outside the control of the Council. The Council has developed a process to provide a detailed quarterly review of capital schemes to identify projected slippage and ensure budgets are aligned as appropriate. The business case approach mentioned above will aid in increasing the level of detail in which each project is monitored and budgets aligned.	July 2016 – Corporate Finance/FMs
5.	Continue to identify revenue savings and efficiencies to ensure the budget gap in 2018/19 is delivered	Medium	Finalising the future savings required to meet the revenue budget gap in future years is a key priority. The Council is already holding regular review meetings in order to find these savings to establish requirements and is considering the possibility of the fixed four year settlement.	Already begun
6.	Continue to action the planned improvements in the weaknesses reported in the AGS	Medium	The AGS is produced in conjunction with the internal audit function and any suggestions included within this will be acted upon. The Council has demonstrated in its work carried out testing the new Agresso system the determination to ensure the maximum assurance can be placed on the processes and procedures in place.	On-going

Appendix B: Audit opinion (DRAFT)

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

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTMINSTER CITY COUNCIL

We have audited the financial statements of Westminster City Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the

reasonableness of significant accounting estimates made by City Treasurer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:
give a true and fair view of the financial position of Westminster City as at 31 March 2016 and of its expenditure and income for the year then ended; and
have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited financial statements in the Narrative Report is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if:
in our opinion the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or
we issue a report in the public interest under section 24 of the Act; or
we make a written recommendation to the Authority under section 24 of the Act; or
we exercise any other special powers of the auditor under the Act.

We have nothing to report in these respects.

Conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources

Respective responsibilities of the Authority and auditor

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and

effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Scope of the review of the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources

We have undertaken our review in accordance with the Code of Audit Practice prepared by the Comptroller and Auditor General as required by the Act (the "Code of Audit Practice"), having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, as to whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing value for money through the economic, efficient and effective use of its resources for the year ended 31 March 2016.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Authority has put in place proper arrangements to secure value for money through economic, efficient and effective use of its resources.

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2015, we are satisfied that in all significant respects, Westminster City Council has put in place proper arrangements for securing value for money through economic, efficient and effective use of its resources for the year ended 31 March 2016.

Certificate

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Act and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for Westminster City Council for the year ended 31 March 2016. We are satisfied that this work does not have a material effect on the financial

statements or on our conclusion on the Authority's arrangements for securing value for money through economic, efficient and effective use of its resources.

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

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Date: TBC

© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

This page is intentionally left blank

The Audit Findings for the City of Westminster Pension Fund

Year ended 31 March 2016

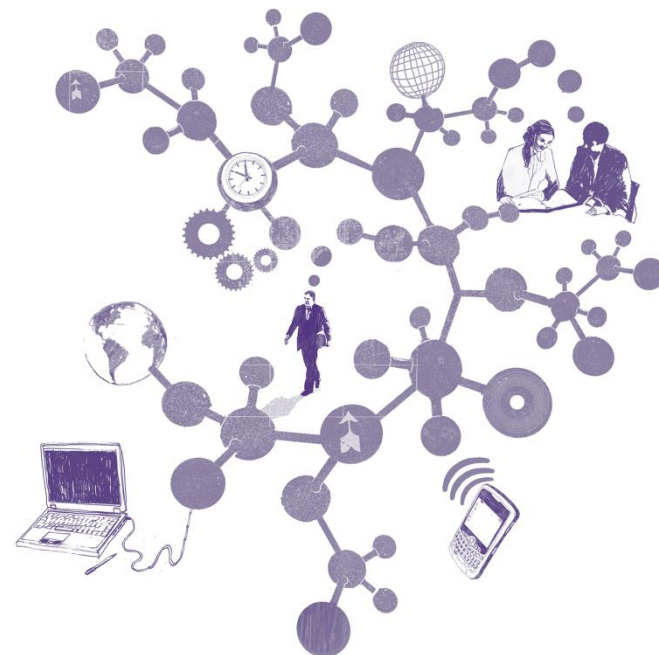
July 2016 (updated from May 2016)

Page 71

Elizabeth olive
Engagement Lead
T 020 7728 3329
E elizabeth.l.olive@uk.gt.com

Geoffrey Banister
Engagement Manager
T 020 7728 3023
E geoffrey.c.banister@uk.gt.com

Dale Connelly
In-charge auditor
T 020 7383 5100
E dale.s.connelly@uk.gt.com



City of Westminster Pension Fund
Westminster City Hall
64 Victoria Street
LONDON
SW1E 6QP

Grant Thornton UK LLP
Grant Thornton House
Melton Street
London NW1 2EP

T +44 (0)20 7383 5100

www.grant-thornton.co.uk

14 July 2016

Dear Members of the Audit and Performance Committee

Audit Findings for City of Westminster Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of City of Westminster Pension Fund, the Audit and Performance Committee), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management and presented to the May 2016 Pension Board.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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.

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

Yours sincerely

Elizabeth Olive
Engagement Lead

Chartered Accountants

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No. OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. Services are delivered by the member firms. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions. Please see grant-thornton.co.uk for further details.

Contents

Section	Page
1. Executive summary	5
2. Audit findings	8
3. Fees, non-audit services and independence	21
4. Communication of audit matters	23
Appendices	
A Action plan	25
B Audit opinion	26

Section 1: Executive summary

Page 74

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Purpose of this report

This report highlights the key issues affecting the results of the City of Westminster Pension Fund ('the Fund') and the preparation of the fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

The Act details the following additional powers and duties for local government auditors, which we are required to report to you if applied:

- public interest report if we identify any matter that comes to our attention in the course of the audit that in our opinion should be considered by the Council or brought to the public's attention (section 24 of the Act);
- written recommendations which should be considered by the Council and responded to publicly (section 24 of the Act);
- application to the court for a declaration that an item of account is contrary to law (section 28 of the Act);
- issue of an advisory notice (section 29 of the Act); and
- application for judicial review (section 31 of the Act)

We are also required to give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts under sections 26 and 27 of the Act.

The pension fund is covered by these provisions as a result of its relationship with the administering authority, Westminster City Council. However in practice the use of these powers in relation to a pension fund is rare and we have not identified any reporting issues in 2015/16.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 22 March 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- reviewing the final annual report
- obtaining and reviewing the management letter of representation (to be dated as the audit opinion date – planned for 14 July) and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements for the Council and Pension Fund on 9 April 2016 which makes them the first draft set of 2015/16 Local Authority financial statements. Officers requested that the audit commence on 18 April to enable them to finalise the accompanying working papers.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix B).

Other financial statement responsibilities

As well as an opinion on the financial statements, we are required to give an opinion on whether other information published together with the audited financial statements is consistent with the financial statements. This includes the Pension Fund Annual Report.

We have reviewed the annual report and we will issue the consistency statement at the same time as the audit opinion.

Key audit and financial reporting issues

Financial statements opinion

We anticipate providing an unqualified opinion on the Fund's financial statements. We have not identified any adjustments affecting the Fund's reported financial position. The draft financial statements for the year ended 31 March 2016 recorded net assets available for benefits during the year of £1,066m; the audited financial statements show the same figure.

The key messages arising from our audit of the Fund's financial statements are:

- We have worked with the Council to achieve an early audit sign-off. The Council submitted its accounts to us on 9 April 2016, nearly three months ahead of the required statutory deadline of 30 June 2016
- The quality of the working papers and documents supporting the balances within the financial statements were of a good standard
- We received a high level of co-operation and support during the course of our audit
- We have recommended one minor adjustment to improve the presentation of the financial statements which has been corrected in the final version of the financial statements

Further details are set out in section two of this report.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

The finance team has worked hard during the financial year to ensure that the information in the new General Ledger is as accurate as possible. They have implemented a number of controls to mitigate the risks arising during the year.

Findings

We draw your attention in particular to control issues identified in relation to:

- Seven cross entity journals for Westminster Pension Fund have been posted during 2015/16 (these balance across the Council/Pension Fund ledgers)
- Fund manager income and expenditure and change in market value not being posted to the ledger but was correctly recorded in the accounts – management expenses totalling £2.5m and investment income totalling £8.5m, Change in market value £6m
- foreign domiciled pensioners have not been circularised to confirm that they are entitled to their pensions.

Further details are provided within section two of this report.

Other statutory powers and duties

We have not identified any issues that have required us to apply our statutory powers and duties under the Act.

The way forward

Matters arising from the financial statements audit have been discussed with the City Treasurer and the finance team.

We have made a number of recommendations, which are set out in the action plan at Appendix A. Recommendations have been discussed and agreed with the City Treasurer and the finance team.

We propose to hold a debrief meeting with the finance team after the accounts are signed off to discuss how the lessons learnt from this audit.

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit. Without the dedication of the finance team we would not have met the tight deadline to deliver the audit.

Section 2: Audit findings

- 01. Executive summary
- 02. Audit findings**
- 03. Fees, non audit services and independence
- 04. Communication of audit matters

Audit Findings

In this section we present our findings in respect of matters and risks identified at the planning stage of the audit and additional matters that arose during the course of our work. We set out on the following pages the work we have performed and the findings arising from our work in respect of the audit risks we identified in our audit plan presented to the Audit Committee. We also set out the adjustments to the financial statements arising from our audit work and our findings in respect of internal controls.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As reported in our audit plan, we determined overall materiality to be £9,891k (being 0.9% of net assets). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £494k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we have not identified any items where we decided that separate materiality levels were appropriate.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA (UK&I) 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
Page 79	<p>1. The revenue cycle includes fraudulent transactions</p> <p>Under ISA (UK&I) 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>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 ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including this Council as the administering authority, mean that all forms of fraud are seen as unacceptable. 	<p>Although we rebutted the risk of revenue recognition for 2015/16, our audit work included tests designed to ensure that revenue was materially fairly stated. Our audit testing has not identified any material issues in respect of revenue recognition.</p>
	<p>2. Management over-ride of controls</p> <p>Under ISA (UK&I) 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<ul style="list-style-type: none"> • review of entity controls • testing of journal entries • review of accounting estimates, judgements and decisions made by management • review of unusual significant transactions 	<p>Our audit work has not identified any evidence of significant management over-ride of controls. However, our review of journal controls and testing of journal entries has identified a weakness in the system in that cross entity journals can be raised across the Council and Pension Fund.</p> <p>We have set out our findings in greater detail in the Internal Controls section (page 17).</p> <p>We set out later in this section of the report our work and findings on key accounting estimates and judgements.</p>

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
<p>3.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 80</p>	<p>Managed services partnership</p> <p><i>Risk of incomplete transfer of data from the old system to the new system</i></p>	<ul style="list-style-type: none"> We have gained an understanding of the Council's relationship with the managed service provider for the service issues currently being faced in delivering the expected contractual commitments for the council Review of the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT We have reviewed the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion IT audit review of the general controls in operation in the financial ledger and overall IT control environment. IT assurance over the completeness of the ledger We carried out substantive testing of all items in the financial statements that are greater than tolerable error set for the Pension Fund accounts. The main focus was on the journal testing and contributions 	<p>The Council has proactively managed the system and service delivery issues throughout the 2015/16 financial year. Officers of the Council, including the pension fund finance team, have regularly visited the British Telecom (BT) offices to ensure that improved system controls are implemented and BT staff have the required knowledge about Local Authority accounting. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit & Performance Committee (A&PC) to update Those Charged With Governance on progress being made to improve service delivery for the year end.</p> <p>The Council identified that there were significant issues with the transactional processing in the system and undertook extensive appropriate sample checking to ensure corrective action was taken by BT. In addition, they took action to mitigate the key error areas by performing manual processes locally for monitoring the financial information during the year. The finance team reviewed 16 key financial transactional / processing areas during November, February and April to cover the full financial year. The level of errors in the transactional testing by year end had significantly reduced due to the enhanced control environment after the November testing had been fed back to BT. Due to the work of officers to give the s151 officer (City Treasurer) confidence in the data in the general ledger, the Council were able to deliver the draft accounts in line with their ambitious closedown timetable.</p> <p>Internal Audit carried out a review of the finance testing and concluded that a robust process had been followed. The Head of Internal Audit Opinion is "the Council's governance, risk management and internal control systems in the areas audited were adequate with the exception of those areas detailed as 'amber' and 'red' all of which have been reported to A&PC".</p> <p>Management acknowledges in the Annual Governance Statement that there is the likelihood of error remaining in the general ledger and that further work is needed in 2016/17 to ensure service provision is at the required level.</p> <p>Our information technology (IT) colleagues have carried out assurance work over the completeness of the transactions in the ledger with BT and Council officers. We obtained assurance that the 2015/16 ledger was complete which enabled us to select samples for testing.</p> <p>Our audit work has not identified any significant issues in relation to the managed services risk. We have identified internal control weaknesses in relation to journal procedures and reported these in the Internal Control section of this report (page 17).</p>

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. • Completed a predictive analytical review of investments income. 	Our audit work has not identified any significant issues in relation to the risk identified.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. 	Our audit work to date has not identified any significant issues in relation to the risk identified.

Page 81

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Pension Fund's own records and sought explanations for variances. • Tested a sample of level 2 investments to independent information from custodian/manager on units and on unit prices. • We have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. 	Our audit work has not identified any significant issues in relation to the risk identified.
Contributions	Recorded contributions not correct (Occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained. 	Our audit work to date has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Testing over completeness, accuracy and occurrence of benefit payments. • Tested a sample of individual pensions in payment by reference to member files. • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained. 	Our audit work has not identified any significant issues in relation to the risk identified except that the fund has not circulated pensioners domiciled abroad to confirm that they are still eligible. We have concluded that there could not be a material misstatement as a result of the control weakness but have raised a recommendation in the Internal Control section of this report (page 17).

Page 82

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
<p>Member Data</p>	<p>Member data not correct. (Rights and Obligations)</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Testing over the annual reconciliation and verifications with individual members. • Sample tested changes to member data made during the year to source documentation. 	<p>Our audit work has not identified any significant issues in relation to the risk identified except that the fund has not circulated pensioners domiciled abroad to confirm that they are still Members. We have concluded that there could not be a material misstatement as a result of the control weakness but have raised a recommendation in the Internal Control section of this report (page 17).</p>

Significant matters discussed with management

	Significant matter	Commentary
1.	Discussions or correspondence with management regarding accounting practices, the application of auditing standards, or fees for audit or other services.	<p>We have discussed the implementation issues of the general ledger and the mitigating actions taken by management in our monthly liaison meetings with the finance team.</p> <p>We have set out our conclusions of the management response to the risks identified in the system during the financial year against the Managed Services significant risk on page 10.</p>

Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The Council's policy for Contribution and Investment income is set out in Note 3 a-c Fund Account – Revenue Recognition.	The revenue recognition policy appears to be consistent with the Code of Practice of Local Authority Accounting and the findings from our audit of the financial statements	● Green
Judgements and estimates	Key estimates and judgements disclosed in the notes to the accounts include: - pension fund liability	We reviewed the key estimates and judgements made by management within the material notes to the accounts. For the disclosures listed, we concluded they appear to be consistent in all material aspects with the guidance set out in the Code of Practice of Local Authority Accounting.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officer's assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green
Other accounting policies	We have reviewed the Fund's policies against the requirements of the CIPFA Code and accounting standards.	The Fund's accounting policies are appropriate and consistent with previous years.	● Green

Page 85

Assessment

● **Red** Marginal accounting policy which could potentially attract attention from regulators

© 2016 Grant Thornton UK LLP | Audit Findings Report for the City of Westminster Pension Fund | 2015/16

● **Amber** Accounting policy appropriate but scope for improved disclosure

● **Green** Accounting policy appropriate and disclosures sufficient

Other communication requirements

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

	Issue	Commentary
1.	Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit.
2.	Matters in relation to related parties	<ul style="list-style-type: none"> From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	Written representations	<ul style="list-style-type: none"> A standard letter of representation will be requested for the Fund.
5.	Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to fund managers, custodian and the bank. This permission was granted and the requests were sent and were returned with positive confirmation.
6.	Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
7.	Matters on which we report by exception	<ul style="list-style-type: none"> We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have reviewed the annual report and confirm it is consistent with the financial statements. No issues to report.

Page 86

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for the three significant risks and other risk areas (Investments, Contributions, Benefits Payable, and Member Data) as set out on pages 9 to 13 above.

The matters that we identified during the course of our audit are set out in the table below. These and other recommendations, together with management responses, are included in the action plan attached at Appendix A.

	Assessment	Issue and risk	Recommendations
1.	● Amber	<ul style="list-style-type: none"> Management Expenses of £2.5m and Investment Income £8.5m incurred/received by Fund Managers and change in market value of £6m has been correctly recorded in the financial statements but not recorded in the Agresso ledger. 	<ul style="list-style-type: none"> All income and Expenditure incurred/received by Fund Managers should be recorded in the Agresso Ledger before the financial statements are prepared
2.	● Amber	<ul style="list-style-type: none"> Pensioners domiciled abroad have not been circularized for over two years to confirm that they are still eligible for their pensions. 	<ul style="list-style-type: none"> All pensioners domiciled abroad should be circularized at least annually to confirm that they are still eligible for their pensions
3.	● Amber	<ul style="list-style-type: none"> The Agresso accounting system allows for journals to be posted so that the debits and credits are not equal within the Westminster Pension Fund ledger. Seven such journals totaling £15k were identified and corrected by the finance team. The journals balanced over the Council/Pension Fund general ledgers as the system allows for journals to be posted across the three councils / pension funds. 	<ul style="list-style-type: none"> Journals should be prevented from being posted across the Council/Pension Fund Agresso Ledgers

Page 87

Assessment

- Red Significant deficiency – risk of significant misstatement
- Amber Deficiency – risk of inconsequential misstatement

The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Adjusted misstatements

There are no adjustments to the draft accounts have been identified during the audit process. We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Unadjusted misstatements

There are no adjustments identified during the audit which we request be processed, but which have not been made within the final set of financial statements.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
1 Misclassification Note 9 - Investment Income	29	Pooled investments-unit trusts and other managed funds	The descriptions and values were incorrectly disclosed in the note. This has been amended to correctly align the £ value with the investment type.
	2,000	Pooled property investments	
2 Misclassification Note 14a classification of Financial Instruments	732	Creditors	Reclassified from loans and receivables to financial liabilities at amortised
Disclosure Note 14c	12,275	Loans and Receivables	Financial instruments carried at fair value note amended to include loans & receivables & financial liabilities at amortised
	(1,061)	Financial Liabilities at amortised cost	

Section 3: Fees, non-audit services and independence

Page 90

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

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

Fees

	Per Audit Plan £	Actual fees £
Pension fund scale fee	21,000	21,000

Fees for other services

Service	Fees £
Audit related services	Nil
Non-audit services	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

Page 92

01. Executive summary

02. Audit findings

03. Fees, non audit services and independence

04. Communication of audit matters

Communication to those charged with governance

International Standards on Auditing ISA (UK&I) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (<http://www.psa.co.uk/appointing-auditors/terms-of-appointment/>)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO (<https://www.nao.org.uk/code-audit-practice/about-code/>). Our work considers the Fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the Fund 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 Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
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		
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Page 94
Appendices

Appendix A: Action plan

Priority

High - Significant effect on control system

Medium - Effect on control system

Low - Best practice

Rec No.	Recommendation	Priority	Management response	Implementation date & responsibility
1	<ul style="list-style-type: none"> All income and Expenditure incurred/received by Fund Managers should be recorded in the Agresso Ledger before the financial statements are prepared. 	Medium	Agreed – will be implemented from 1 April 2016.	1 April 2016 Tri-borough Director of Treasury and Pensions
2	<ul style="list-style-type: none"> All pensioners domiciled abroad should be circularized at least annually to confirm that they are still eligible for their pensions. 	Low	We will review the policy for ensuring continuity eligibility for pensions during 2016-17. We are unlikely to opt for full circularisation as other options for identifying deceased members are available e.g. matching to death registers in the UK. Targeted circularization e.g. overseas residents will be considered.	2016/17 Tri-borough Director of Treasury and Pensions
3	<ul style="list-style-type: none"> Journals should be prevented from being posted across the Council/Pension Fund Agresso Ledgers. 	High	The standard journal process has built in controls which prevent cross entity posting. The issues experienced in year were as a result of the requirement to use a separate process to bypass the system performance issues. This was only in place for 5 weeks and has since been removed. The Council monitored transactions throughout this process which resulted in these items being identified and amended appropriately.	Already in place – MSP/BT

Page 95

Appendix B: Audit opinion (DRAFT)

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

DRAFT - INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF WESTMINSTER CITY COUNCIL

We have audited the pension fund financial statements of Westminster City Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the City Treasurer and auditor

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or

materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements: give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Elizabeth Olive
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

Date: TBC



© 2016 Grant Thornton UK LLP. All rights served.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires.

Grant Thornton UK LLP is a member firm of Grant Thornton International LTD (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL, and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.

grant-thornton.co.uk

This page is intentionally left blank



Audit and Performance Committee

Date:	Thursday 14th July 2016
Classification:	General Release
Title:	Period 2 Finance Report
Report of:	City Treasurer
Cabinet Member Portfolio	Cabinet Member for Finance and Corporate Services
Wards Involved:	All
Policy Context:	The efficient and effective management of the Council's financial affairs
Report Author and Contact Details:	Steven Mair – City Treasurer smair@westminster.gov.uk

1. Key Messages

1.1 Please note this report is in a new format and is open to feedback. Improvements made include:

- Charts to show summary level performance for Cabinet portfolios
- Commentary for service areas and cabinet portfolios illustrated in a table along with relevant financial data which it is hoped are easier to read than the previously used text based format
- New sections on treasury and pensions providing a more in depth knowledge of the finances of Westminster Council
- Further improvements to be made during the year

Revenue – Forecast Outturn

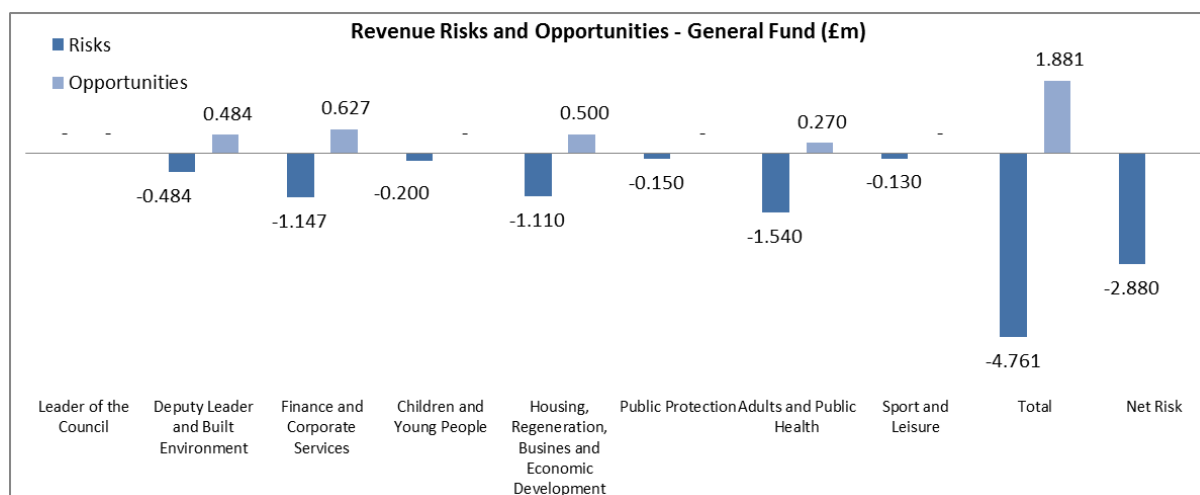
1.2 At the end of period 2, the General Fund is projected to outturn on budget at year end.

Revenue – Key Risks and Opportunities

1.3 Currently there are £4.761m of identified service area risks, which are being carefully monitored to minimise their potential impact. Set against these are potential opportunities of £1.881m. The charts below show the distribution of these within and Cabinet portfolios.

- 1.4 The net risk position of £2.880m is largely related to unmitigated costs of the Temporary Accommodation service (£1.00m).

Risks and Opportunities by Cabinet portfolios



Capital – Forecast Outturn

- 1.5 The overall gross General Fund capital programme for 2016/17 is £357.970m, which is partly funded from external contributions of £103.74m. This gross budget includes re-profiling from the 2015/16 approved capital programme.
- 1.6 As at the end of period 2 the forecast gross outturn is £319.280m, £38.690m lower than the approved budget. Key projects contributing to this variance are detailed in the table below.
- 1.7 All directorates will be carrying out a detailed review of budgets at the end of quarter 1. At the end of period 2, expected re-profiling is reported as £38.690m. The table below details the projects which make up this figure.

Capital forecast outturn against budget at period 2

	Approved Gross Budget (£m)	Forecast Outturn (£m)	Variance to Budget (£m)	Prior Period Forecast Outturn (£m)
Capital Programme 2016/17	357.970	319.280	38.690	n/a
Comprising of:				
Marylebone Library	16.664	4.166	12.498	n/a
Huguenot House	21.365	16.024	5.341	n/a
Leisure Estate	83.100	62.325	20.775	n/a

2. Revenue Expenditure - Cabinet

2016/17 Budgets and Projected Expenditure – By Cabinet Member

2.1 As shown in Table 1 below, at period 2 Cabinet areas are projecting to outturn on budget.

P2 Forecast Outturn by Cabinet Member

Cabinet Portfolio Structure	Budget	Projected Outturn	Projected Variance	Risks Identified	Opp'nities Identified	Projected Net Risk
	£000	£000	£000	£000	£000	£000
Leader of the Council	4,927	4,927	-			-
Deputy Leader and Built Environment	(606)	(606)	-	484	(484)	-
Finance and Corporate Services	43,330	43,330	-	1,147	(627)	520
Children and Young People	33,722	33,722	-	200	-	200
Housing, Regeneration, Business & Economic Development	14,580	14,580	-	1,110	(500)	610
Public Protection	10,599	10,599	-	150	-	150
Sustainability and Parking	(61,915)	(61,915)	-	-	-	-
City Management and Customer Services	55,668	55,668	-	-	-	-
Adults & Public Health	69,814	69,814	-	1,540	(270)	1,270
Sport and Leisure	13,001	13,001	-	130	-	130
SERVICE AREA TOTAL	183,120	183,121	-	4,761	(1,881)	2,880

Council Tax	49,350	49,350	-
Business Rates Expenditure (Tariff)	75,919	75,919	-
Revenue Support Grant	57,851	57,851	-
Corporate Financing	183,120	183,120	-
Net (Surplus) / Deficit	-	-	-

Leader of the Council (Cllr Roe)

A nil reported forecast variance and no risks or opportunities are being reported at period 2.

Deputy Leader of the Council and Built Environment (Cllr Davis)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Policy, Performance and Communications	-	0.150	(0.150)	Potential risk of £0.150m relating to lower than expected commercial activities. However, the shortfall in income will be offset by under spend on pay due to vacancies not filled
Policy, Performance and Communications	-	0.334	(0.334)	Risk relates to the shortfall of income from Westminster CIL. CIL was initiated on the 1st May 2016, it is anticipated that the full income target of £1.00m will not be achieved in 2016/17. A proxy figure of £0.334m has been used as the potential shortfall. It is difficult to predict the actual income because income is only due when a development has started construction.

				Additional income opportunities of £0.344m from section 106 monitoring fees and Mayoral CIL income expected to be a one off benefit.
Total	-	0.484	(0.484)	
Net Risk Total		-		

Finance and Corporate Services (Cllr Mitchell)

A nil reported forecast variance at period 2 against budget. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Chief of Staff	-	0.100	(0.100)	Risk reported at period 2 on Coroner's Service from specialist fees of £0.100m. Mitigated by opportunities reported on Local Land Charges income (£0.050m) and on staff vacancies (£0.050m).
Corporate Services	-	0.427	(0.427)	Risk reported £0.427m on savings target for Bi-Borough restructure and capital ESourcing mitigated by opportunity reported of (£0.427m) on margins charged from agency staff contract with Comensura
		0.100	(0.100)	Risk reported of £0.100m on telephony charges mitigated by an opportunity of a salary underspend due to posts being vacant part of the year (£0.100m).
Growth, Planning and Housing	-	0.520	-	Allocation of digital transformation savings not yet identified £0.400m. Changes to the constitution for link could result in £0.120m additional cost.
Total	-	1.147	(0.627)	
Net Risk Total		0.520		

Children and Young People (Cllr Chalkley)

At the end of period 2, the forecast outturn for the Children's Services Department is on budget. Risks are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Children's Services	-	0.200	-	<p>Children's Services are expecting a balanced outturn for 2016/17 against budget.</p> <p>Within Family Services there is a forecast overspend as a result of increased placements pressures of £1.095m along with Section 17 housing cost pressures of £0.150m and other minor variances of £0.168m.</p> <p>Within the Schools Commissioning and Education directorate there is a forecast overspend of £0.795m. This is due to an increase in demand for SEN transport of £0.590m as a result of increased parental awareness, in addition to £0.270m of staff costs incurred to reduce the backlog of Education Healthcare plan conversions.</p> <p>Children's Services been able to partially offset these pressures through cross directorate mitigations shown in Finance and Resources as well as budgets held for service pressures from prior year savings and efficiencies.</p> <p>In addition the Building Schools for the Future Programme has now concluded and will result in a positive variance of £0.223m. This is offset by expenditure on by Children's services to support the delivery of major projects and other minor variances of £0.011m.</p> <p>There is a risk of £0.200m is in respect of potential fostering allowances which the council may now incur following the Tower Hamlets judgment.</p>
Total	-	0.200	-	
Net Risk Total		0.200		

Housing, Regeneration, Business & Economic Development (Cllr Astaire)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Growth, Planning and Housing	-	1.110	(0.200)	Risks have been identified within Temporary Accommodation; there is a £0.500m run rate risk from 2015/16 and in addition £0.500m from risk of non-delivery of 2016/17 TA savings initiatives. In addition there is £0.110m risk of under delivery from the MTP HOS saving. Risks offset by better than forecast outturn position within Housing Benefits (£0.200m)
Growth, Planning and Housing	-	-	(0.300)	Opportunity of savings within rough sleeper and supporting people services (£0.300m)
Total	-	1.110	(0.500)	
Net Risk Total		0.610		

Public Protection (Cllr Aiken)

A nil forecast variance at period 2 is being reported. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
City Management and	-	0.150	-	£0.150m risk to pest control income due to reduced service capacity as a result of resourcing issues.
Total	-	0.150	-	
Net Risk Total		-		

Sustainability and Parking (Cllr Acton)

A nil forecast variance and no risks or opportunities at period 2 are being reported.

City Management and Customer Services (Cllr Caplan)

A nil forecast variance and no risks or opportunities at period 2 are being reported.

Adults and Public Health (Cllr Robathan)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
Adult Services	-	1.540	(0.270)	<p>The Customer Journey MTP saving may not be deliverable due to staff notice periods creating a risk of £0.350m.</p> <p>Opportunities of (£0.270m) may be realised from a reduction in agency staff expenditure through a realignment of existing post duties to bring forward the delivery of savings and will offset the MTP risk leaving a balance of £0.080m.</p> <p>Non MTP risks of £0.290m relating to the transfer of Learning Disabled Children to Adult Social Care. The mandatory National Living Wage on adult social care contracts also gives rise to a risk of £0.900m. However, detailed financial modelling of the National Living Wage risk will be completed in time for reporting in period 3.</p>
Adult Services	1.007			<p>Increase demand in non-residential care services is forecast to create an adverse variance of £1.007m.</p> <p>Positive variances which offset this balance are to be generated through increase payment claw-backs of £0.460m, contact underspends in Strategic Commissioning, Occupational therapy and Learning Disability service of £0.365m, £0.092m and £0.090m respectively.</p>
	(0.460)			
	(0.365)			
	(0.090)			
	(0.092)			
Total	-	1.540	(0.270)	
Net Risk Total		1.270		

For further information there are on-going pressures on Adult Social Care budgets and a forecast demand growth for care services. These include:

- increasing numbers of older people
- people with disabilities
- people with long term health conditions needing care.

These demographic pressures are exacerbated by increasing pressure from hospitals to discharge patients speedily, particularly during winter months. Also there is added pressure from:

- reduced capacity to make efficiencies from external care providers without affecting the quality of care they provide
- an increase in homecare costs.

The state of the market and unavoidable cost pressures will continue to be a major challenge. Acuity and level of complexity is increasing alongside demographic changes. There are workforce pressures from the London Living Wage and National Living Wage and the driving down of prices. These are all major dynamics that are impacting on the availability and quality of services. Internal reviews of all areas of expenditure are on-going in order to mitigate pressure from placements and demographic growth.

Public Health

At the end of period 2, the forecast outturn for Public Health is predicted to be on budget for 2016/17. Any budget pressures are currently expected to be contained within existing ring-fenced grant income.

At the last Spending Review the Chancellor advised that there would be further savings in the public health grant. This reflects an average real terms saving of 2.6% each year to 2020/21. Medium Term Savings Plans are being assessed in light of this.

In addition to these grant cuts, an Advisory Council of Resource Allocations (ACRA) consulted in regards to the future calculation of the Public Health Formula. It is not yet known what effect the proposed formula may have on the level of the Public Health Grant as the proposed grant figures are not yet available.

The concern is that there will be a reduction in the grant allocations as well as a reduction in the total National Grant pot. It is anticipated that WCC could take a higher hit as the Council is historically overfunded per head of population.

Sports, Leisure & Customer Services (Cllr Harvey)

A nil reported forecast variance at period 2. Risks and Opportunities are detailed in the table below.

EMT Directorate	Forecast Variance to budget (£m)	Risks (£m)	Opps (£m)	Explanation
City Management and Communities	-	0.036	-	Risk of £0.036m due to the Archives no longer receiving income from LBHF for help in running the service following the set-up of the Tri-Borough service.
		0.069		Risk of £0.069m of the saving identified for the Digital programme is a risk while further work is undertaken to verify how much can be removed whilst retaining a good service.
		0.025		Risk of £0.025m due to water charges for cemeteries have been higher than expected. The service will try to mitigate this by making one-off savings in the Parks and Cemeteries budgets
Total	-	0.130	-	
Net Risk Total		0.130		

3 Capital Expenditure

Table 2: 2016/17 Budgets and Projected Expenditure – By Cabinet Area

All Service Areas	Approved Budget 2016/17 £'m			P2 Forecast £'m			Gross Expenditure Variance	Gross Income Variance
	EXP	INC	NET	EXP	INC	NET	£'m	£'m
Adults & Public Health - Cllr Robathan	1.39	(0.82)	0.57	1.39	(0.82)	0.57	-	-
Children and Young People - Cllr Chalkley	9.13	(8.43)	0.69	9.13	(8.43)	0.70	-	-
Housing, Regeneration, Business and Economic Development - Cllr Astaire	67.22	(52.64)	14.57	67.22	(52.64)	14.57	-	-
Sustainability And Parking - Cllr Acton	-	-	-	-	-	-	-	-
Finance and Corporate Services- Cllr Mitchell	208.52	(28.62)	179.90	182.41	(28.62)	153.79	25.11	-
City Management and Customer services - Cllr Caplan	12.27	-	12.27	12.27	-	12.27	-	-
Sports and Leisure Services - Cllr D Harvey	7.12	(0.25)	6.87	7.12	(0.25)	6.87	-	-
Public Protection - Cllr Aiken	3.06	(0.64)	2.42	3.06	(0.64)	2.42	-	-
Deputy Leader and Built Env. - Cllr Davis	49.27	(12.34)	36.93	36.77	(12.34)	24.43	12.50	-
NET BUDGET POSITION	357.97	(103.74)	254.23	319.37	(103.74)	215.62	38.60	-
Net Expenditure funded by								
Capital Receipts			(113.56)			(113.56)	-	-
Borrowing			(140.67)			(102.07)	-	-
Total Funding for net expenditure			(254.23)			(215.62)	-	-

Finance and Corporate Services (Cllr Mitchell)

Huguenot House - £16.024m forecasted spend, re-profiling of £5.341m (75% expected spend against budget)

- Since setting the budget there has been clarity regarding the timelines. The Outline Business Case is currently being developed and is expected to be completed in October. At this point there will be authorisation to take the scheme forward and to spend against the capital budget for the next stage. Once the Outline Business Case has been approved, there is expected to be expenditure in this financial year for acquisitions and further design work.

Leisure Estate - £62.325m forecasted spend, re-profiling of £20.775m (75% expected spend against budget)

- Since setting the budget there has been clarity regarding the timelines. The Outline Business Case is currently being developed and is expected to be completed in October; at this point there will be authorisation to take the scheme forward and to spend against the capital budget for the next stage. Once the Outline Business Case has been approved, there is expected to be expenditure in this financial year for acquisitions and further design work.

Deputy Leader and Built Environment. - Cllr Davis

Marylebone Library - £4,166k forecasted spend, slippage of £12,498k (25% expected spend against budget)

- The delivery of this scheme is under review. In line with this there is expected to be a delay to the project.

A full review of the Capital programme will take place at the end of quarter 1. At that time re-profiling will be identified within the programme. At the end of period 2 the actual on the expenditure for capital was a credit of £6.238m.

4 HRA

4.1 Revenue Expenditure - 2016/17 Budgets and Projected Expenditure

As shown in Table 3 below, at period 2 the forecast outturn is a surplus of £7.340m, in line with budget.

Revenue Period 2 Forecast Outturn

Description	Approved Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Income			
Dwelling Rent	(75,764)	(75,764)	0
Non Dwelling Rent	(1,188)	(1,188)	0
Service & Facilities charges	(17,017)	(17,017)	0
Other Income	(13,410)	(13,410)	0
Total Income	(107,378)	(107,378)	0
Expenditure			
Housing Management	47,769	47,769	0
Repairs & Maintenance	16,267	16,267	0
Capital Charges	35,152	35,152	0
Bad Debt Provision	850	850	0

Total - Expenditure	100,038	100,038	0
Net Operating deficit/ (surplus)	(7,340)	(7,340)	0

- 4.2 For further information, the Housing and Planning Act 2016 requires local authorities to sell off high value void dwellings. Then make a payment to the Secretary of State or replace each sold dwelling with at least one new affordable home. Details of how this will work will be set out in regulation expected later in the year. As a result it is anticipated that dwelling rent might reduce as vacant dwellings are held or sold. Impact on the current year budget and the HRA in general will be established and reported soon after detailed regulation is published.

Capital Expenditure

- 4.3 As shown in Table 4 below, at period 2 the forecast outturn is £82.513m, in line with budget. There are no major variances reported at this stage, however it is anticipated some regeneration or elements of the major works projects will be delayed.

Capital Period 2 Forecast Outturn

Description	Approved Budget	Forecast Outturn	Variance
	£'000	£'000	£'000
Major Works	41,418	41,418	-
Housing Zone Regeneration	29,635	29,635	-
Other Projects	11,459	11,459	-
Total Capital Expenditure	82,513	82,513	-
Financed By:			
Major Repairs Reserves (MRR)	22,767	22,767	-
New Borrowing	29,700	29,700	-
Capital Grant - AHF	1,681	1,681	-
Capital Receipts - Other	18,365	18,365	-
Capital Receipts RTB/Non RTB	1,051	1,051	-
HRA Reserves	8,948	8,948	-
Total Financing	82,513	82,513	-
Net	-	-	-

HRA Reserves

- 4.4 The HRA general reserves stood at £31.606m on 1st April 2016. The Operating account will contribute an estimated £7.340m to the reserves this year and an estimated £8.948m will be used to finance HRA Capital expenditure. This will result in an estimated end of year balance of £29.998m. Other HRA balances stood at £56.435m on 1st April 2016. This includes earmarked reserves, accumulated right to buy and other capital receipts from

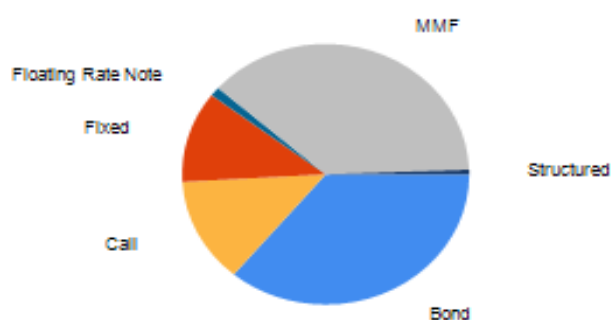
the sale of HRA assets. These reserves are available to finance HRA earmarked revenue and capital expenditure.

5 Treasury and Pensions

Treasury

- 5.1 The investment balance as at 10 June 2016 stood at £875.300m. The weighted average return in period 2 was 0.61%. This compared to an average investment balance of £848.000m in 2015/16, which generated an average return of 0.59%.
- 5.2 As at 10 June 2016 the current deposits by type are as follows, and the five largest counterparties are shown in table 7:

Current Deposit Allocation by Type



Glossary:

- MMF** – Money Market Funds, these are pooled funds which are secure and available on demand with relatively low returns.
- Structured** – Has a maturity date like a fixed term deposit, but it is completely dependent on the performance of the underlying financial asset(s) for its investment return.
- Bond** – a debt security which pays interest per the terms of the bond at fixed intervals. Very often the bond is negotiable/tradable in the secondary market.
- Call** – a call account requires a minimum balance on the account in exchange for a higher interest rate
- Fixed** – placed for an agreed period of time and as such pays a higher interest rate than money market funds
- Floating Rate** – varies in line with a market reference rate such as LIBOR or Bank base rate. Market reference is not the same as the interest rate on money market funds

List of Five Largest Counterparties

Counterparty Name	Amount (£'000)	%
Deutsche Managed Sterling Platinum	70,000	8.00
Aberdeen Sterling Liquidity Fund (Institutional)	70,000	8.00
Federated Sterling Liquidity Fund (Institutional)	69,500	7.94
JPM Liq Sterling Liquidity Institutional Dis NAV GBP	68,200	7.79
UK Government	54,772	6.26

Pensions

5.3 The Westminster Council pension fund valuation as at 31st March 2016 is as follows:

Manager	Asset Class	End Dec 2015 (£m)	End Mar 2016 (£m)	End Dec 2015 (%)	End Mar 2016 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	241.8	241.5	23.1	22.8	22.5
LGIM	Global Equity (Passive)	243.2	239.9	23.2	22.7	22.5
Baillie Gifford	Global Equity	178.1	178.9	17.0	16.9	25
Longview	Global Equity	107.1	113.9	10.2	10.8	
	Total Equity	770.2	774.2	73.5	73.2	70
Insight	Fixed Interest Gilts (Passive)	17.9	18.4	1.7	1.7	20
Insight	Sterling Non-Gilts	154.7	158.5	14.8	15.0	
	Total Bonds	172.6	176.9	16.5	16.7	20
Hermes	Property	54.9	55.4	5.2	5.2	5
Standard Life	Property	50.5	51.1	4.8	4.8	5
To be Determined	Property/Infrastructure	-	0.0	-	0.0	-
	Total Property	105.4	106.5	10.1	10.1	10
	Total	1,048.2	1,057.6	100	100	100

Source: Investment Managers

Figures may not sum to total due to rounding

Investment Returns

5.4 The three year annualised return after fees of 7.7% exceeded the benchmark by 0.6%. All the fund managers either matched or exceeded their benchmarks.

5.5 The funding level as at March 2016 of 78%, using 2013 assumptions, is 4% higher than March 2013. This is currently subject to review by officers and a plan is being developed to reduce the deficit in the most economically advantageous way. This potentially may involve making use of the council's cash balances.

5.6 Key issues looking forward are:

- actuarial valuation and contribution setting for all Council and the other employers
- solvency testing for employers and developing a policy for admitted (contractor) employers
- working with the London CIV to develop a fund manager structure and transfer assets
- review of pension fund risk register using better definitions of probability and impact
- working with HR to enhance the monitoring of contributions
- re-tender of the mandate for investment consultancy services
- training for Pension Committee and Board

5.7 The City Treasurers service are currently investigating Treasury and Pensions funding and financing and will be reporting back on options in the Autumn.

6 Council Tax and Business Rates Collection

Council Tax

- 6.1 As at the end of period 2, 30.4% of Council Tax had been collected. This means we are currently on track to collect 96.6% of Council Tax, exceeding our target of 96.5%. At the corresponding period last year we had collected 29.0% of Council Tax.



Business Rates

- 6.2 As at the end of period 2, 22.1% of Business Rates had been collected. This means we are currently on track to collect 98.5% of Business Rates, meeting our target. At the corresponding period last year we had collected 22.9% of Business Rates. This is shown in the chart on the following page.



7 Recommendation to Committee

- 7.1 That the Committee notes the Period 2 monthly monitor.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact Steven Mair 020 7641 2904**

This page is intentionally left blank

Agenda Item 6

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank