

# The Audit Plan for City of Westminster Council

**Year ending 31 March 2016**

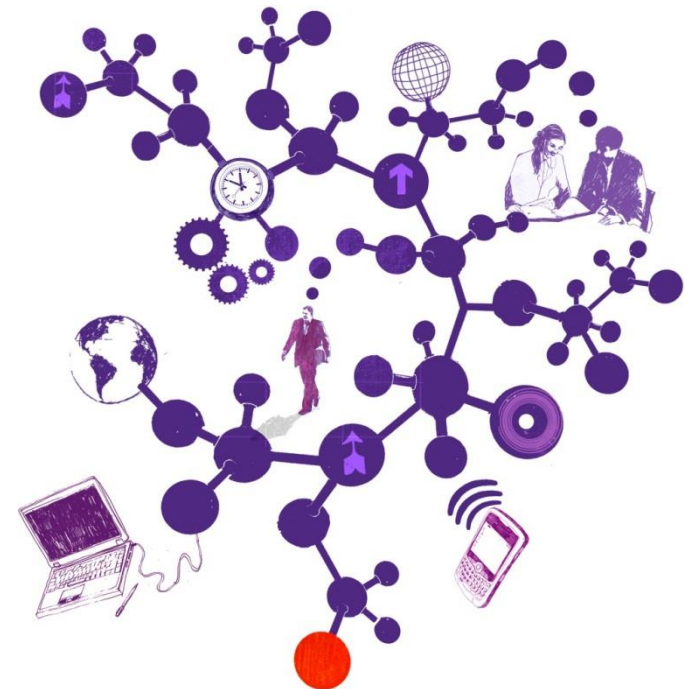
3 February 2016

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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

3 February 2016

Dear Members of the Audit and Performance Committee

**Audit Plan for City of Westminster Council for the year ending 31 March 2016**

This Audit Plan sets out for the benefit of those charged with governance (in the case of Westminster City Council, the Audit and Performance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Council and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Council's financial statements
- satisfy ourselves the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

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.

Yours sincerely

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# Understanding your business

In planning our audit we need to understand the challenges and opportunities the Council is facing. We set out a summary of our understanding below.

## Challenges/opportunities

### 1. Autumn Statement 2015 and financial health

- The Chancellor proposed that local government would have greater control over its finances, although this was accompanied by a 24% reduction in central government funding to local government over 5 years.
- Despite the increased ownership, the financial health of the sector is likely to become increasingly challenging.

### 2. Devolution

- The Autumn Statement 2015 also included proposals to devolve further powers to localities.
- The challenge for London councils is currently being discussed in various forums both Londonwide and in localities
- London already has a devolved Mayoral system and the Council continues to work closely with the Mayor and associated bodies,

### 3. Housing

- The Autumn Statement also included a number of announcements intended to increase the availability and affordability of housing.
- In particular, the reduction in council housing rents and changes to right to buy will have a significant impact on Councils' housing revenue account business plans.
- There is a demand for housing in London with limited space available for development

### 4. Integration with health sector

- Developments such as the increased scope of the Better Care Fund and transfer of responsibility for public health to local government are intended to increase integration between health and social care.
- This requires greater collaboration between health and local government to ensure savings are identified whilst maintaining levels of support available to those most vulnerable. Local authorities have been given the power to increase council tax by 2% to help fund the additional social care costs of the aging population
- A number of specific health pilots are in place in London and the Council continues to pursue effective relationships with these



## Our response

- We will consider the Council's plans for addressing its financial position as part of our work to reach our VFM conclusion.

- We will consider your plans as part of the local devolution agenda as part of our work in reaching our VFM conclusion.
- We are able to provide support and challenge to your plans based on our knowledge of devolution elsewhere in the country.

- We will consider how the Council has reflected government announcements as part of its business planning process.
- We will share our knowledge of how other Councils are responding to these changes.

- We will consider how the Council has reflected changes to its responsibilities in relation to public health and how it is working with partners, as part of our work in reaching our Vfm conclusion.

# Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

## Developments and other requirements

### 1. Fair value accounting

- A new accounting standard on fair value (IFRS 13) has been adopted and applies for the first time in 2015/16.
- This will have a particular impact on the valuation of surplus assets within property, plant and equipment which are now required to be valued at fair value in line with IFRS 13 rather than the existing use value of the asset.
- Investment property assets are required to be carried at fair value as in previous years.
- There are a number of additional disclosure requirements of IFRS 13.



### 2. Corporate governance

- The Accounts and Audit Regulations 2015 require local authorities to produce a Narrative Statement, which reports on your financial performance and use of resources in the year, and replaces the explanatory foreword.
- You are required to produce an Annual Governance Statement (AGS) as part of your financial statements.



### 3. Highways Network Assets

- Although you are not required to include Highways Network Assets until 2016/17, this will be a significant change to your financial statements and you will need to carry out valuation work this year.



### 4. Joint arrangements

- Councils are involved in a number of pooled budgets and alternative delivery models which they need to account for in their financial statements.
- As arrangements develop councils need to ensure they reassess whether they need to prepare group accounts



## Our response

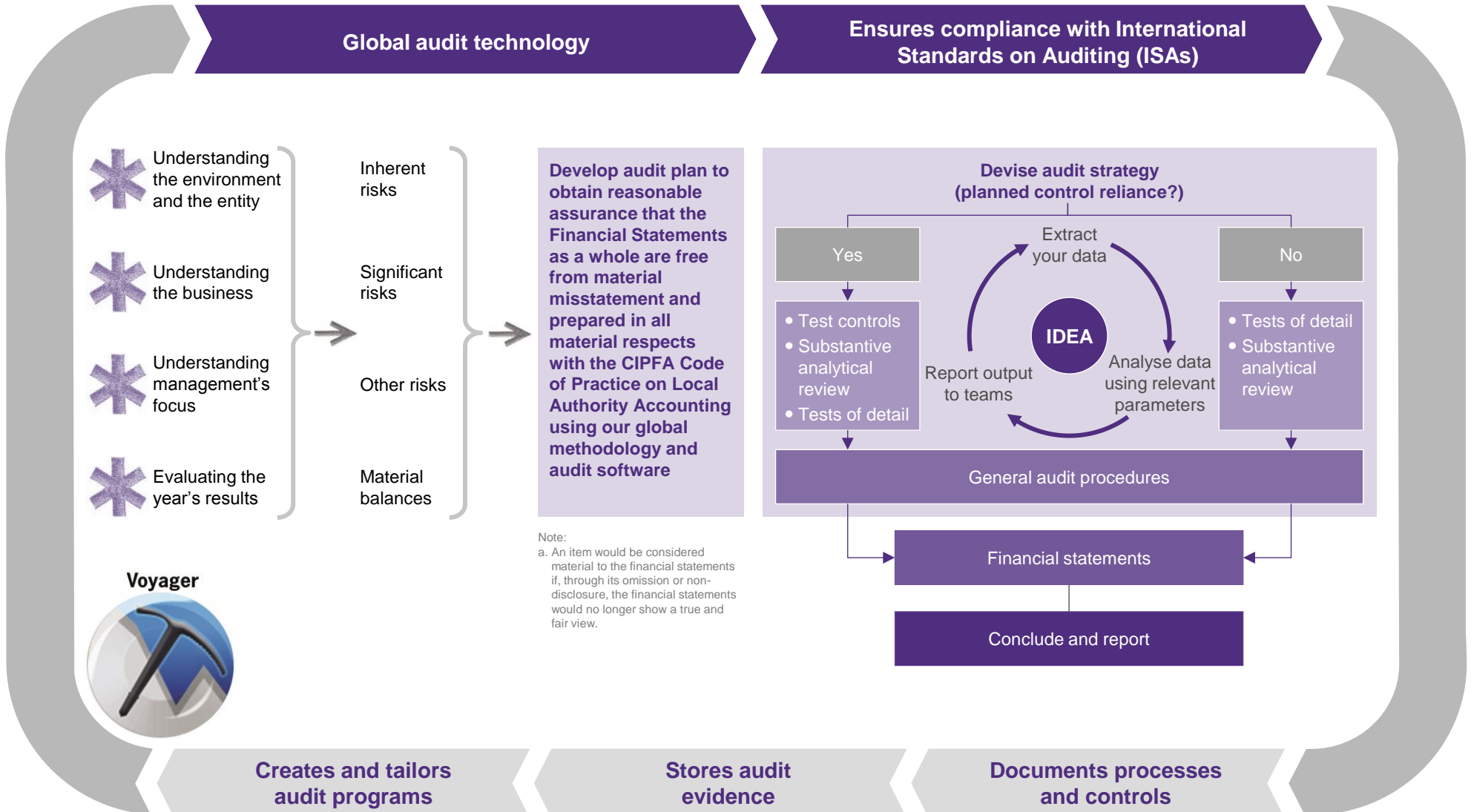
- We will keep the Council informed of changes to the financial reporting requirements for 2015/16 through ongoing discussions and invitations to our technical update workshops.
- We will discuss this with you at an early stage, including reviewing the basis of valuation of your surplus assets and investment property assets to ensure they are valued on the correct basis.
- We will review your draft financial statements to ensure you have complied with the disclosure requirements of IFRS 13.

- We will review your Narrative Statement to ensure it reflects the requirements of the CIPFA Code of Practice when this is updated, and make recommendations for improvement.
- We will review your arrangements for producing the AGS and consider whether it is consistent with our knowledge of the Council and the requirements of CIPFA guidance.

- We will discuss your plans for valuation of these assets at an early stage to gain an understanding of your approach and suggest areas for improvement.

- We will review your proposals for accounting for these arrangements against the requirements of the CIPFA Code of Practice.

# Our audit approach



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# 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 is usual in public sector entities, we have determined materiality for the statements as a whole as a proportion of the gross revenue expenditure of the Council. For purposes of planning the audit, we have determined overall materiality in the context of a reader of the whole statement of accounts to be £13,910k (being 1.5% of gross revenue expenditure in 2014/15). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this. Our reason for selecting this level of materiality is based on the risks associated with the new financial ledger system which was implemented from 1 April 2015 under the Managed Services programme. This programme has resulted in significant risk to the Council. The Council continues to take significant steps to mitigate this risk. As a result of the current issues being faced by the Council in the implementation of the ledger we have set the testing threshold (tolerable error) at 60% of materiality. For 2015/16 this is £7,914k and all balances over this level will be audited.

Under ISA 450, auditors 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 accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters, again within the context of the statement of accounts, are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £695k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any items which require a separate materiality level.



# Significant risks identified

"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 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 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"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition in the Council is limited</li> <li>• the culture and ethical frameworks of local authorities, including Westminster City Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <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>
Management over-ride of controls	<p>Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management in the prior year and discussions about the proposed treatment in 2015/16</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries throughout the 2015/16 financial year. This work will be carried out in the context of the journals being completed by the managed services partnership.</li> <li>• Review of unusual significant transactions</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Valuation of property, plant and equipment, including the valuation of surplus assets and investment property</p>	<p>The Council revalues its assets on a rolling basis over a five year period although it is currently reviewing this approach with its current valuer. 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><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Discussions about the valuation methodology to be used in 2015/16</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of management's processes and assumptions for the calculation of the estimate</li> <li>• Review of the competence, expertise and objectivity of any management experts used</li> <li>• Review of the instructions issued to valuation experts and the scope of their work</li> <li>• Discussions with valuer about the basis on which the valuation is carried out and challenge of the key assumptions used</li> <li>• Review of the information provided by the Council, and used by the valuer, in reaching the assumptions to ensure it is robust and consistent</li> <li>• Testing of revaluations made during the year to ensure they are input correctly into the Council's asset register</li> <li>• 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 IFRS 13</li> <li>• Evaluation of the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value</li> </ul>

## Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Managed services partnership (<i>risk of incomplete transfer of data from the old system to the new system</i>)</p>	<p>The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements, including:</p> <ul style="list-style-type: none"> <li>• Reconciliations are not carried out timely and there are a large number of unreconciled items in the income and cash balances</li> <li>• Expenditure payments are not being made correctly</li> <li>• Some income received by the council is unallocated and being held in a suspense account</li> <li>• Payroll information is not up to date and not all employees are being routinely paid</li> </ul> <p>The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Improvements are being made in the transactional processing every month but there remains a risk to the audit opinion.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have gained an understanding of the Council's relationship with the managed service provider, including the position as at December 2015 for the service issues currently being faced in delivering the expected contractual commitments for the council</li> <li>• Review of the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review 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</li> <li>• Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion</li> <li>• IT audit review of the general controls in operation in the financial ledger and overall IT control environment</li> <li>• We will carry out substantive testing of all items in the financial statements that are greater than the tolerable error level set out on page 8 to ensure the balances are accurate</li> </ul>

## Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures" (ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Operating expenses	Creditors related to core activities understated or not recorded in the correct period (Operating expenses understated)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive sampling of payments throughout the year and year end creditors</li> <li>• Testing for unrecorded liabilities</li> </ul>
Employee remuneration	Employee remuneration and benefit obligations and expenses understated (Remuneration expenses not correct)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Substantive sampling of payroll system to payslips and contractual records</li> <li>• Reconciling the total pay per the payroll system to the general ledger</li> </ul>
Welfare benefit expenditure	Welfare benefits improperly computed	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• Identification and walkthrough of controls</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• Sample testing of welfare benefits expenditure</li> <li>• Test the year end reconciliation between the housing benefits system and the general ledger</li> </ul>

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# Other risks identified (continued)

## Other material balances and transactions

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

- Intangible assets
- Heritage assets
- Assets held for sale
- Investments (long term and short term)
- Cash and cash equivalents
- Borrowing and other liabilities (long term and short term)
- Provisions
- Usable and unusable reserves
- Movement in Reserves Statement and associated notes
- Statement of cash flows and associated notes
- Financing and investment income and expenditure
- Taxation and non-specific grants
- Schools balances and transactions
- Segmental reporting note
- Officers' remuneration note
- Leases note
- Related party transactions note
- Capital expenditure and capital financing note
- Financial instruments note
- Housing Revenue Account and associated notes
- Collection Fund and associated notes
- Funds held on trust note

## Other audit responsibilities

- We will undertake work to satisfy ourselves that disclosures made in the Annual Governance Statement are in line with CIPFA/SOLACE guidance and consistent with our knowledge of the Council.
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will carry out work on consolidation schedules for the Whole of Government Accounts process in accordance with NAO instructions to auditors.
- We will give electors the opportunity to raise questions about the accounts and consider and decide upon objections received in relation to the accounts

# Value for Money

## Background

The Code requires us to consider whether 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.

The NAO issued its guidance for auditors on value for money work in November 2015. The guidance states that for local government bodies, auditors are required to give a conclusion on whether the Council has put proper arrangements in place.

The NAO guidance identifies one single criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

This is supported by three sub-criteria as set out below:

Sub-criteria	Detail
Informed decision making	<ul style="list-style-type: none"><li>• Acting in the public interest, through demonstrating and applying the principles and values of good governance</li><li>• Understanding and using appropriate cost and performance information to support informed decision making and performance management</li><li>• Reliable and timely financial reporting that supports the delivery of strategic priorities</li><li>• Managing risks effectively and maintaining a sound system of internal control</li></ul>
Sustainable resource deployment	<ul style="list-style-type: none"><li>• Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions</li><li>• Managing assets effectively to support the delivery of strategic priorities</li><li>• Planning, organising and developing the workforce effectively to deliver strategic priorities.</li></ul>
Working with partners and other third parties	<ul style="list-style-type: none"><li>• Working with third parties effectively to deliver strategic priorities</li><li>• Commissioning services effectively to support the delivery of strategic priorities</li><li>• Procuring supplies and services effectively to support the delivery of strategic priorities.</li></ul>

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# Value for Money (continued)

## Risk assessment

We shall carry out an initial risk assessment based on the NAO's guidance. In our initial risk assessment, we will consider :

- our cumulative knowledge of the Council, including work performed in previous years in respect of the VfM conclusion and the opinion on the financial statements.
- the findings of other inspectorates and review agencies, including Ofsted.
- any illustrative significant risks identified and communicated by the NAO in its Supporting Information.
- any other evidence which we consider necessary to conclude on your arrangements.

Following the completion of this risk assessment, we will issue a separate planning document setting out our planned work for 2015/16 to meet our duties in respect of the VfM conclusion. This will include any significant risks identified, along with details of the work we plan to carry out to address these risks.

Although we have not yet carried out the detailed planning, we note that the previous auditor issued an except for VfM conclusion in respect of compliance with:

- the Procurement Code; and
- internal financial regulations, in particular for contract extensions and maintaining an up to date contracts register.

We will follow up these findings to determine the improvements made during 2015/16.

In addition, our initial planning discussions with officers has identified a risk in relation to the support processes in place for the Council's major capital projects from the awarding to on-going managing of the project. The Council is currently implementing a new process to be followed for all major schemes. We will set out the work we plan to carry out in the detailed VfM plan.

## Reporting

The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report and in the Annual Audit Letter. We will issue a separate report in respect of VfM or agree any additional reporting to the Council on a review-by-review basis.

We will include our conclusion as part of our report on your financial statements which we will give in line with the agreed timetable.

# Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

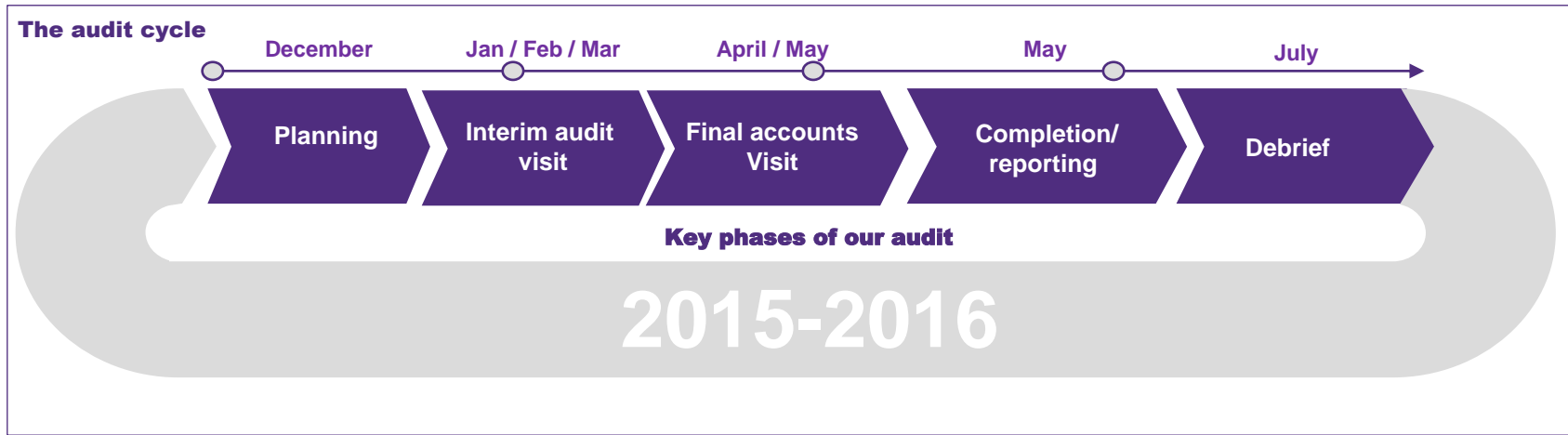
	<b>Work performed</b>	<b>Conclusion</b>
<b>Internal audit</b>	<p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have had a introductory meeting with internal audit and will continue to liaise with them over the closedown period.</p>	<p>Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Council and that internal audit work contributes to an effective internal control environment.</p>
<b>Entity level controls</b>	<p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul>	<p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p>
<b>Review of information technology controls</b>	<p>Our information systems specialist will perform a high level review of the general IT control environment, as part of the overall review of the internal controls system. We have held a meeting with the managed services lead officer to ensure the information for the audit testing can be extracted from the ledger.</p>	<p>Our work is planned for February and March 2016.</p>
<b>Walkthrough testing</b>	<p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. However, we have not yet reviewed the controls assurance reports from the external auditor of the service provider so cannot conclude whether the control environment is appropriate.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls operating at the Council have been implemented in accordance with our documented understanding.</p>	<p>Our work to date of the Council's own controls has not identified any weaknesses which impact on our audit approach.</p> <p>We cannot conclude on the control environment at the service provider until the controls assurance reports are provided by their external auditor.</p>



## Results of interim audit work (continued)

	<b>Work performed</b>	<b>Conclusion</b>
<b>Journal entry controls</b>	<p>We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.</p> <p>We plan to undertake detailed testing on journal transactions recorded for the first nine months of the financial year, by extracting 'unusual' entries for further review, in February 2016.</p>	<p>We will carry out journal testing in February 2016.</p>

# Key dates



<b>Date</b>	<b>Activity</b>
December 2015	Planning
11-15 January 2016 25 January – 5 February 2016 March 2016 - TBC	Interim site visits
3 February 2016	Presentation of audit plan to Audit and Performance Committee
11 April – 6 May 2016	Year end fieldwork
3 May 2016	Audit findings clearance meeting with City Treasurer
12 May 2016	Report audit findings to those charged with governance (Audit and Performance Committee)

# Fees and independence

## Fees

	£
Council audit	185,719
Grant certification	25,386
<b>Total audit fees (excluding VAT)</b>	<b>211,105</b>

## Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Council and its activities, have not changed significantly.
- The Council will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

## 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 £
<b>Audit related services:</b>	
• Teachers pensions return	3,500
• Pooling of housing capital receipts	4,000
<b>Non-audit services</b>	
• No services provided to date	Nil

## Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter

## 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.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

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

# Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 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.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Council.

## Respective responsibilities

This plan 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 and includes nationally prescribed and locally determined work (<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 the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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# Appendices – Pension Fund

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# Pension Fund

We will prepare a detailed Audit Plan for the Pension Fund 2015/16 audit following completion of the risk assessment procedures. We will present this to the Pension Fund Committee on 22 March 2016.

We have set out the risks identified at the initial planning stage for the 2015/16 accounts audit of Westminster City Council Pension Fund on the following pages.

# Pension Fund - Significant risks identified

'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 315).

In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing – ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	<p>Under ISA 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 Westminster City Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• There is little incentive to manipulate revenue recognition</li> <li>• Opportunities to manipulate revenue recognition are very limited</li> <li>• The culture and ethical frameworks of local authorities, including Westminster City Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable</li> <li>• The split of responsibilities between the Authority, the Custodian and its Fund Managers provide a very strong separation of duties reducing the risk around investment income</li> <li>• Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds</li> </ul>
Management over-ride of controls	Under ISA 240 the presumption that the risk of management over-ride of controls is present in all entities.	<p><b>Work planned:</b></p> <ul style="list-style-type: none"> <li>• Review of accounting estimates, judgments and decisions made by management</li> <li>• Testing of journal entries</li> <li>• Review of unusual significant transactions</li> </ul>

## Pension Fund - Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
<p>Managed services partnership (<i>risk of incomplete transfer of data from the old system to the new system</i>)</p>	<p>The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements, including:</p> <ul style="list-style-type: none"> <li>• Reconciliations are not carried out timely and there are a large number of unreconciled items in the income and cash balances</li> <li>• Expenditure payments are not being made correctly</li> <li>• Some income received by the council is unallocated and being held in a suspense account</li> <li>• Payroll information is not up to date and not all employees are being routinely paid</li> </ul> <p>The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Improvements are being made in the transactional processing every month but there remains a risk to the audit opinion.</p>	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>• We have gained an understanding of the Council's relationship with the managed service provider, including the position as at December 2015 for the service issues currently being faced in delivering the expected contractual commitments for the council</li> <li>• Review of the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>• We will review 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</li> <li>• Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion</li> <li>• IT audit review of the general controls in operation in the financial ledger and overall IT control environment</li> <li>• We will carry 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 will be on the journal testing and contributions.</li> </ul>



# Pension Fund - Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit Approach
Investment purchases and sales	Investment activity not valid	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will send letters to the custodian and fund managers requesting direct confirmation of ownership, existence and valuation of investment balances at 31<sup>st</sup> March 2016 and of income receivable throughout the year</li> <li>The direct confirmation from the Custodian will include obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date, and one other date during the year. Any material reconciling items will be investigated further, as necessary.</li> </ul>
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Sample testing of benefit payments</li> <li>Sample testing of individual pensions in payment by reference to member files</li> <li>We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained</li> </ul>

# Pension Fund - Other risks identified (continued)

Other risks	Description	Audit Approach
Investment values – Level 2 investments	Valuation is incorrect (Valuation net)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will send letters to the custodian and fund managers requesting direct confirmation of ownership, existence and valuation of investment balances at 31<sup>st</sup> March 2016 and of income receivable throughout the year</li> <li>We will review the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian, where available</li> <li>The direct confirmation from the Custodian will include obtaining a copy of their reconciliation to the respective segregated investment manager at the year end date, and one other date during the year. Any material reconciling items will be investigated further, as necessary</li> <li>Direct confirmation will be obtained from all non segregated Investment managers, and an overall unit reconciliation for all material unitised pooled investment vehicles will also be obtained and considered</li> <li>Derivative contracts (if material), will be tested by a sample agreed to underlying contracts and the valuation being agreed to external data sources.</li> </ul>
Contributions	Recorded contributions not correct (Occurrence)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>Sample testing over occurrence, completeness and accuracy of contributions</li> <li>We will also review contributions received with reference to changes in member body payrolls and numbers of contributing members to ensure that any unexpected trends are satisfactorily explained.</li> </ul>
Member Data	Member data not correct (Rights and Obligations)	<p><b>Work completed to date:</b></p> <ul style="list-style-type: none"> <li>We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No issues were arising from this work.</li> </ul> <p><b>Further work planned:</b></p> <ul style="list-style-type: none"> <li>We will document the existence of key controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing required, we will therefore test the key controls identified in these areas.</li> <li>Sample testing of changes to member data made during the year to source documentation</li> </ul>



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