

Audit and Performance Committee  
Westminster City Council  
Progress Report and Update  
Year ended 31 March 2017

November 2016

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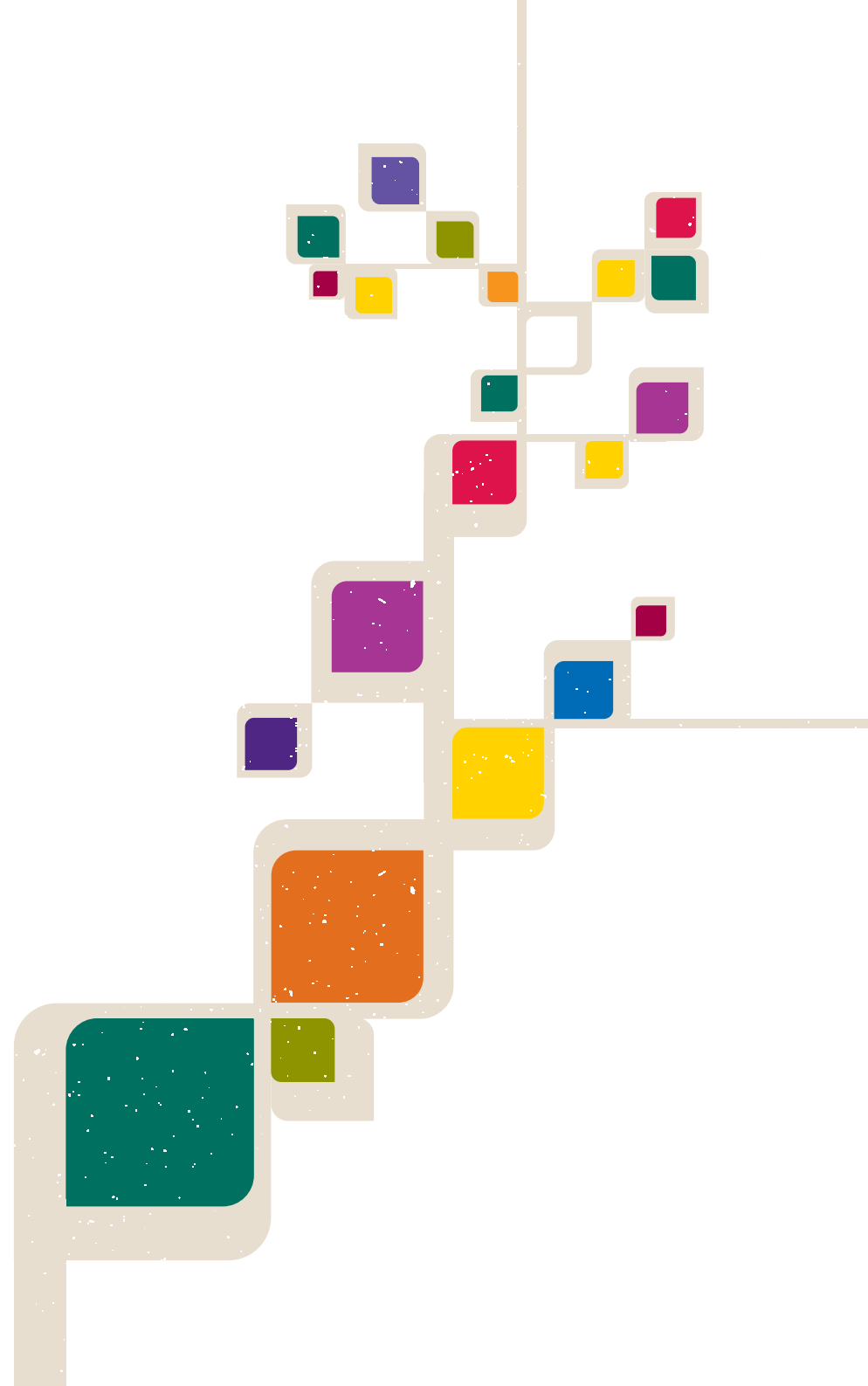
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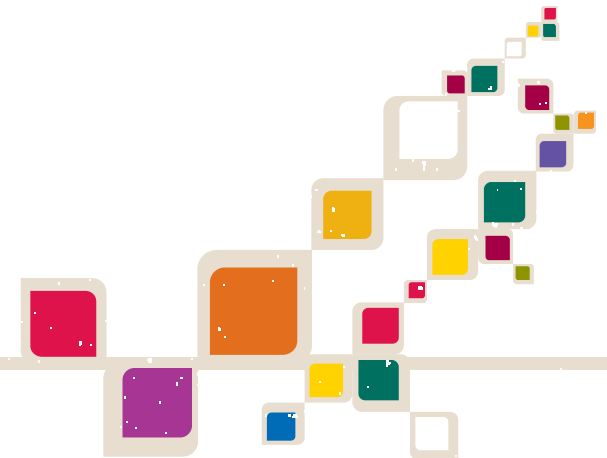
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# Introduction

This paper provides the Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

Members of the Audit Committee can find further useful material on our website [www.grant-thornton.co.uk](http://www.grant-thornton.co.uk), where we have a section dedicated to our work in the public sector. Here you can download copies of our publications:

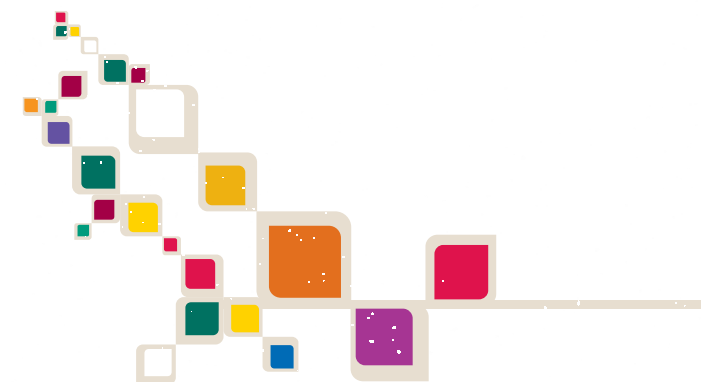
- Innovation in public financial management (December 2015); [www.grantthornton.com/global/en/insights/articles/innovation-in-public-financial-management/](http://www.grantthornton.com/global/en/insights/articles/innovation-in-public-financial-management/)
- Knowing the Ropes – Audit Committee Effectiveness Review (October 2015); [www.grantthornton.co.uk/en/insights/knowing-the-ropes-audit-committee-effectiveness-review-2015/](http://www.grantthornton.co.uk/en/insights/knowing-the-ropes-audit-committee-effectiveness-review-2015/)
- Making devolution work: A practical guide for local leaders (October 2015) [www.grantthornton.co.uk/en/insights/making-devolution-work/](http://www.grantthornton.co.uk/en/insights/making-devolution-work/)
- Reforging local government: Summary findings of financial health checks and governance reviews (December 2015) <http://www.grantthornton.co.uk/en/insights/reforging-local-government/>,

Members and officers may also be interested in our recent webinars:

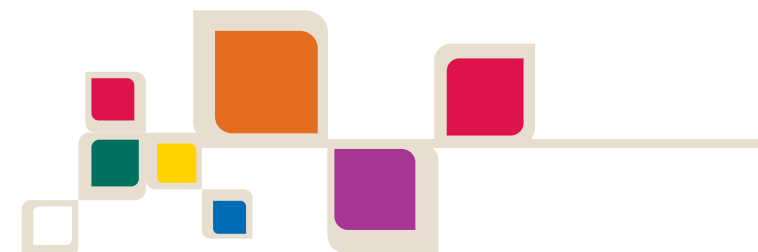
**Alternative delivery models:** Interview with Helen Randall of Trowers and Henslins, discussing LATCs and JVs in local government. <http://www.grantthornton.co.uk/en/insights/qa-on-local-authority-alternative-delivery-models/>

**Cyber security in the public sector:** Our short video outlines questions for public sector organisations to ask in defending against cyber crime <http://www.grantthornton.co.uk/en/insights/cyber-security-in-the-public-sector/>

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

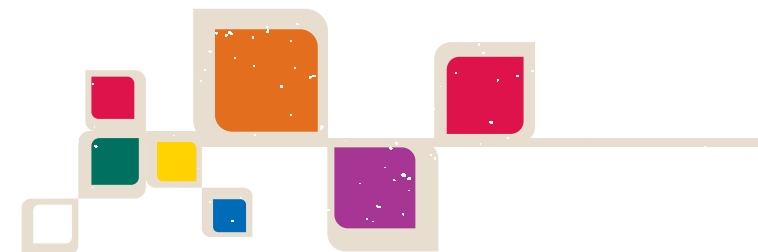


# Progress at November 2016



2016/17 work	Planned Date	Complete?	Comments
<p><b>Fee Letter</b></p> <p>We are required to issue a 'Planned fee letter for 2016/17 by the end of April 2016.</p>	April 2016	Yes	The 2016/17 fee letter was issued in April 2016 and considered by the committee in .
<p><b>Accounts Audit Plan</b></p> <p>We are required to issue a detailed accounts audit plan to the Council setting out our proposed approach in order to give an opinion on the Council's 2016/17 financial statements.</p>	February 2017	Not yet due	Our Audit Plan will be presented to the February 2017 committee. The Plan is based on our monthly liaison meetings with the finance team and our findings from the initial planning and risk assessment audit visits.
<p><b>Interim accounts audit</b></p> <p>Our interim fieldwork visit plan included:</p> <ul style="list-style-type: none"> <li>• updated review of the Council's control environment</li> <li>• updated understanding of financial systems</li> <li>• review of Internal Audit reports on core financial systems</li> <li>• early work on emerging accounting issues</li> <li>• early substantive testing</li> <li>• Value for Money conclusion risk assessment.</li> </ul>	<p>Initial planning: October 2016</p> <p>Risk assessment: November 2016</p> <p>Early substantive testing: February 2017</p>	<p>Yes</p> <p>Not yet due</p> <p>Not yet due</p>	<p>We have planned regular audit visits throughout the financial year to ensure that we carry out as much early testing as possible before the accounts audit visit in April 2017.</p>
<p><b>Final accounts audit</b></p> <p>Including:</p> <ul style="list-style-type: none"> <li>• audit of the 2016/17 financial statements</li> <li>• proposed opinion on the Council's accounts</li> <li>• proposed Value for Money conclusion</li> <li>• review of the Council's disclosures in the consolidated accounts against the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</li> </ul>	11 April to 10 May 2017	Not yet due	<p>The Council's ambitious early closedown timetable will be delivered again in 2016/17.</p> <p>We have started to carry out a review of the Highways Network Assets as this is a highly material change to the accounts this year and is a significant risk for our audit opinion. This will enable us to agree the accounting entries with the finance team before the accounts are prepared.</p>

# Progress at November 2016



2016/17 work	Planned Date	Complete?	Comments
<p><b>Value for Money (VfM) conclusion</b></p> <p>The scope of our work has changed and is set out in the final guidance issued by the National Audit Office in November 2015. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".</p> <p>The guidance confirmed the overall criterion as; "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".</p> <p>The three sub criteria for assessment to be able to give a conclusion overall are:</p> <ul style="list-style-type: none"> <li>• Informed decision making</li> <li>• Sustainable resource deployment</li> <li>• Working with partners and other third parties</li> </ul>	<p>Initial planning: November 2016</p> <p>Detailed assessment: April 2017</p>	<p>Not yet due</p> <p>Not yet due</p>	<p>We will set out the results of our risk assessment and the proposed focus of our work in the Audit Plan.</p> <p>The results of our VfM audit work and the key messages arising will be reported in our Audit Findings Report.</p> <p>We will include our conclusion as part of our report on your financial statements.</p>
<p><b>Other areas of work</b></p> <p>We have issued our LG financial health and governance review and Faster Close report.</p>			<p>The Council is a case study in the Faster Close report as the earliest Council in the country to prepare the accounts and receive an audit opinion in 2015/16. Further information on the report is set out on page 16.</p>

# Grant Thornton Sector Issues



# Brexit: What happens next and what does it mean for you?

The people of the UK have made a decision to leave the EU. What happens next – and the implications for businesses and organisations in the UK – is less clear.

We have produced an analysis of what we know about the mechanics of leaving the EU, our assessment of some of the external factors that may affect organisations over the coming months and years, and a summary of the different models for trading relationships outside the EU. This can be found on our website and we have attached copies to this report.

In thinking about the impact organisations will want to consider not only legal and regulatory changes but also market reactions, consumer and business behaviours, and the wider political and economic environment. The Council will have a role in both shaping its own response and in helping organisations in the City respond to a changing environment. We can expect three broad phases of reaction to Brexit:

- initial volatility
- medium term uncertainty and instability
- longer term transition

The impact of this will be different for every organisation. In looking at the threats and opportunities these phases create, and planning how the Council can create and protect value, you may wish to consider the short, medium and long term implications for issues like people and talent, strategic ambitions, financing, risk, operations and protecting investment.

We believe that in the coming weeks and months, dynamic organisations have a critical role to play in helping to shape the future of Britain. Grant Thornton is leading a campaign which expresses how we can build a vibrant economy. You can find out more here: <http://vibranteconomy.co.uk/>

We would welcome views on what the priorities should be for government and the UK to create a new economy outside the EU.

Emerging issues

How is the Council responding to the outcome of the EU referendum?

# Financial sustainability of local authorities: capital expenditure and resourcing

National Audit Office

According to the NAO, Local authorities in England have maintained their overall capital spending levels but face pressure to meet debt servicing costs and to maintain investment levels in their existing asset bases.

Since 2010-11, local authorities have faced less pressure on their resources to support capital expenditure as compared to revenue. Although local authorities' revenue spending power fell by over 25 per cent in real terms from 2010-11 to 2015-16, the NAO estimates that capital grants to authorities originally increased from 2010-11 to 2014-15, (excluding education).

Capital spending by authorities increased by more than five per cent in real terms overall between 2010-11 and 2014-15, but this is uneven across local authorities and service areas. In most half of authorities reduced their capital spending. Most service areas saw an increase in capital spend with the exception of culture and leisure: capital spending fell by 22 per cent overall in this area.

The NAO's report, published on 15 June, found that authorities face a growing challenge to continue long-term investment in their existing assets. Total spending has remained stable, but increasingly capital activities are focused on 'invest to save' and growth schemes that cover their costs or have potential to deliver a revenue return. Many areas of authorities' asset management programmes do not meet these criteria and are now seen as a lower priority.

The report also notes that local authorities' debt servicing costs have grown as a proportion of revenue spending as revenue resources have fallen. A quarter of single-tier and county councils now spend the equivalent of 10 per cent or more of their revenue expenditure on debt servicing, with metropolitan district councils being particularly exposed.

According to the NAO, DCLG has rightly focused on revenue issues in the 2015 Spending Review but in future reviews will need to focus more on capital. The Department is confident from its engagement with authorities that revenue pressures are their main concern, however the NAO's analysis demonstrates that capital costs exert significant and growing pressure on revenue resources.

The full report is available at:

<https://www.nao.org.uk/report/financial-sustainability-of-local-authorities-capital-expenditure-and-resourcing/>



# The changing face of Corporate Reporting

We have established a global network of public sector auditors and advisors to share good practice and to provide informed solutions to the corporate reporting challenges our clients face.

We were fortunate to have the CEO of the IIRC speak at our most recent meeting. Integrated Reporting, < IR >, is a new approach to corporate reporting and it is building a world-wide following in both the public and private sectors.

In the commercial sector, < IR > has led to improvements in business decision making, the understanding of risks and opportunities as well as better collaborative thinking by boards about goals and targets..

< IR > is based on integrated thinking that results in a report by an organisation about sustainable value creation. It requires a more cohesive and efficient approach to organisational reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organisation to create value over time.

By moving the focus away from only short-term, backward looking, financial reporting, < IR > encourages organisations to report on a broader range of measures that link their strategic objectives to their performance. The result is an overview of an organisation's activities and performance in a much wider, more holistic, context.

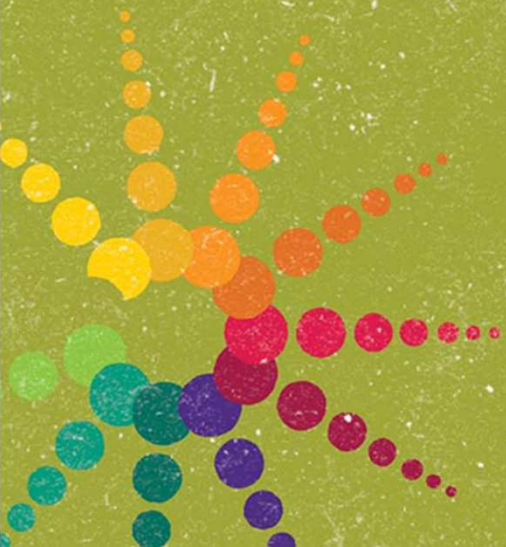
- < IR > encourages organisations to consider whether there are any gaps in the information that is currently available to them, so that integrated thinking becomes embedded in mainstream practice.
- < IR > is underpinned by the International < IR > Framework published in December 2013. It is principles-based, allowing organisations to innovate and develop their reporting in the context of their own regulatory framework, strategy, key drivers, goals and objectives.
- < IR > is consistent with the Strategic Reports required from UK companies, the Performance Reports that government departments, agencies and NHS bodies produce and the developing Narrative Reporting in local government.

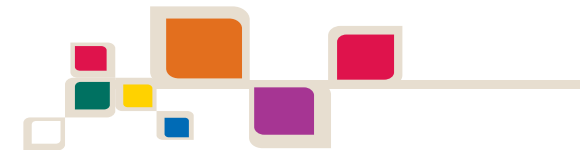
The IIRC has established a Public Sector Pioneer Network to consider why and how the public sector can adopt < IR >, with the end goal of improving transparency and building trust. There is already a core of UK organisations within this.

<Integrated Reporting>

Further information is available on the IIRC's website

# Grant Thornton Technical update





## Accounting and audit issues

### Code of Practice on Local Authority Accounting in the United Kingdom 2016/17

CIPFA/LASAAC has issued the Local Authority Accounting Code for 2016/17. The main changes to the Code include:

- the new measurement requirements at depreciated replacement cost for the Highways Network Asset (HNA) and
- the requirement for local authorities to report in the Comprehensive Income and Expenditure Statement on the same basis as they are organised and report in the year (ie. no longer following SERCOP). This is accompanied by the introduction of a new Expenditure and Funding Analysis which provides a reconciliation between the way local authorities budget and report during the year and the Comprehensive Income and Expenditure Statement.

In respect of HNA, the Accounting Code requires local authorities to comply with the CIPFA Code of Practice on Transport Infrastructure Assets issued in 2013. The Transport Infrastructure Code has been recently reissued as the Highways Network Asset Code (HNA Code). Whilst no major changes have been identified in the new Code to the basis of the accounting set out in the previous Code of Practice on Transport Infrastructure Assets, a small number of changes have been set out to clarify accounting for particular items.

The key challenge for local authorities is around the accuracy and completeness of supporting records for HNA inventory and condition at 1 April 2016 and effective arrangements for recording expenditure and other movements on HNA from that date.



## Accounting and audit issues

### Flexible use of capital receipts

DCLG has issued a [Direction and Statutory Guidance](#) on the flexible use of capital receipts to fund the revenue costs of reform projects. The direction applies from 1 April 2016 to 31 March 2019.

The Direction sets out that expenditure which 'is incurred by the Authorities that is designed to generate ongoing revenue savings in the delivery of public services and/or transform service delivery to reduce costs and/or transform service delivery in a way that reduces costs or demand for services in future years for any of the public sector delivery partners' can be treated as capital expenditure.

Capital receipts can only be used from the disposals received in the years in which the flexibility is offered rather than those received in previous years.

Authorities must have regard to the Statutory Guidance when applying the Direction.

Grant Thornton  
Publications and  
events



# Website Relaunch

We have recently launched our new look website. Our new homepage has been optimised for viewing across mobile devices, reflecting the increasing trend for how people choose to access information online. We wanted to make it easier to learn about us and the services we offer.

You can access the page using the link below – <http://www.grantthornton.co.uk/industries/public-sector/>



# Better Together: Building a successful joint venture company

Local government is evolving as it looks for ways to protect front-line services. These changes are picking up pace as more councils introduce alternative delivery models to generate additional income and savings.

'Better together' is the next report in our series looking at alternative delivery models and focuses on the key areas to consider when deciding to set up a joint venture (JV), setting it up and making it successful.

JVs have been in use for many years in local government and remain a common means of delivering services differently. This report draws on our research across a range of JVs to provide inspiring ideas from those that have been a success and the lessons learnt from those that have encountered challenges.

Key findings from the report:

- JVs continue to be a viable option – Where they have been successful they have supported councils to improve service delivery, reduce costs, bring investment and expertise and generate income
- There is reason to be cautious – Our research found a number of JVs between public and private bodies had mixed success in achieving outcomes for councils
- There is a new breed of JVs between public sector bodies – These JVs can be more successful at working and staying together. There are an increasing number being set up between councils and wholly-owned commercial subsidiaries that can provide both the commercialism required and the understanding of the public sector culture.

Our report, Better Together: Building a successful joint venture company, can be downloaded from our website: <http://www.grantthornton.co.uk/en/insights/building-a-successful-joint-venture-company/>

Grant Thornton reports

 Grant Thornton  
An instinct for growth

ALTERNATIVE SERVICE DELIVERY MODELS IN LOCAL GOVERNMENT

Better together  
Building a successful  
joint venture company



# Advancing closure: the benefits to local authorities

With new regulation bringing forward the required publishing date for accounts local authorities must consider the areas needed to accelerate financial reporting.

In February 2015, regulations were laid before parliament confirming proposals to bring forward the date by which local authority accounts must be published in England. From 2017-18, authorities will need to publish their audited financial statements by 31 July, with Wales seeking to follow a similar approach over the next few years.

Many local government bodies are already experiencing the benefits of advancing their financial reporting processes and preparing their accounts early, including:

- raising the profile of the finance function within the organisation and transforming its role from a back office function to a key enabler of change and improvement across the organisation;
  - high quality financial statements as a result of improved quality assurance arrangements;
  - greater certainty over in-year monitoring arrangements and financial outlook position for the year, supporting members to make more informed financial decisions for the future;
  - improved financial controls and accounting systems, resulting from more efficient and refined financial processes; and
  - allowing finance officers more time to focus on forward looking medium term financial planning and transformational projects, to address future financial challenges.
- While there is no standard set of actions to achieve faster close there are a number of consistent key factors across the organisations successfully delivering accelerated closedown of their accounts, which our report explores in further details:
- Enabling sustainable change requires committed leadership underpinned by a culture for success
  - Efficient and effective systems and processes are essential
  - Auditors and other external parties need to be on board and kept informed throughout

Grant Thornton reports



Advancing closure  
Transforming the financial reporting of  
local authority accounts



<http://www.grantthornton.co.uk/en/insights/advancing-closure-the-benefits-to-local-authorities/>





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