



# The Annual Audit Letter for Westminster City Council

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**Year ended 31 March 2017**

October 2017

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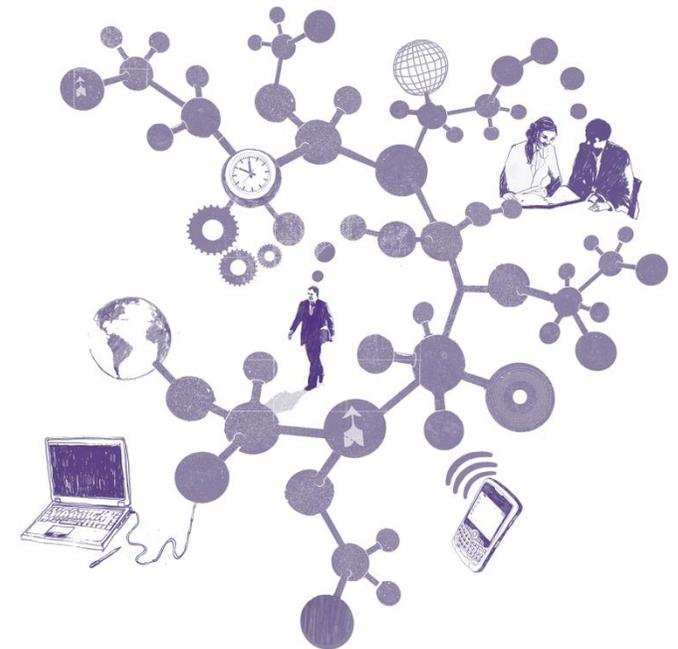
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# Executive summary

## **Purpose of this letter**

Our Annual Audit Letter (Letter) summarises the key findings arising from the work we have carried out at Westminster City Council (the Council) for the year ended 31 March 2017.

This Letter provides a commentary on the results of our work to the Council and its external stakeholders, and highlights issues we wish to draw to the attention of the public. In preparing this letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice (the Code) and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit and Performance Committee (as those charged with governance) in our Audit Findings Report on 11 May 2017 and updated for the final findings on 17 July 2017.

## **Our responsibilities**

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK and Ireland) (ISAs) and other guidance issued by the NAO.

## **Our work**

### **Financial statements opinion**

We gave an unqualified opinion on the Council's financial statements on 18 July 2017.

### **Value for money conclusion**

We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources during the year ended 31 March 2017. We reflected this in our audit opinion on 18 July 2017.

### **Use of additional powers and duties**

We are required under the Act to give electors the opportunity to raise questions about the Council's accounts and we consider and decide upon objections received in relation to the accounts. We received one objection in relation to the 2016/17 accounts and are currently concluding our procedures before responding formally to the elector.

### **Whole of government accounts**

We completed work on the Council's consolidation return following guidance issued by the NAO and issued an unqualified report on 29 September 2017.

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### **Certificate**

We are currently unable to certify that we have completed the audit of the accounts of Westminster City Council as we have not yet completed work in respect of objections received.

### **Certification of grants**

We also carry out work to certify the Council's Housing Benefit subsidy claim on behalf of the Department for Work and Pensions. Our work on this claim is not yet complete and will be finalised by 30 November 2017. We will report the results of this work to the Audit and Performance Committee in our Annual Certification Letter.

### **Working with the Council**

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
**October 2017**

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# Audit of the accounts

## **Our audit approach**

### **Materiality**

In our audit of the Council's accounts, we applied the concept of materiality to determine the nature, timing and extent of our work, and to evaluate the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for our audit of the Council's accounts to be £20.9 million, which is 1.85% of the Council's gross revenue expenditure. We used this benchmark, as in our view, users of the Council's accounts are most interested in how it has spent the income it has raised from taxation and grants during the year.

We set a lower threshold of £1.046 million, above which we reported errors to the Audit and Performance Committee in our Audit Findings Report.

### **Pension Fund Materiality**

For the audit of the Westminster Pension Fund accounts, we determined materiality to be £11.4 million, which is 0.9% of the Fund's net assets. We used this benchmark, as in our view, users of the Pension Fund accounts are most interested in the value of assets available to fund pension benefits.

We set a threshold of £570,000 above which we reported errors to the Audit and Performance Committee.

## **The scope of our audit**

Our audit involves obtaining enough evidence about the amounts and disclosures in the financial statements to give reasonable assurance they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the Council's accounting policies are appropriate, have been consistently applied and adequately disclosed;
- significant accounting estimates made by the City Treasurer are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the narrative report and annual governance statement to check they are consistent with our understanding of the Council and with the accounts included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in line with ISAs (UK and Ireland) and the NAO Code of Audit Practice. We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the accounts - Council

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Managed Services Partnership (MSP)</b>            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. 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. Significant improvements have been made since the previous year but there remains a risk to the audit opinion.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the Council's relationship with the managed service provider during the 2016/17 year</li> <li>• reviewed the control environment around the posting of journals on the ledger and how these operate across the tri-borough</li> <li>• reviewed the service provision arrangements to ensure that the Council had sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2017.</li> </ul>	<p>The Council has continued to proactively manage the system and service delivery throughout the 2016/17 financial year. Officers of the Council have continued to visit the BT offices to ensure that the improved system controls are effectively operating throughout the year. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit &amp; Performance Committee to update TCWG on progress being made to improve service delivery for the year end. Improvements have been made to the journal control environment although the Council are still unable to obtain a report of who posted and authorised every journal from BT. We also identified that the system still allowed ten cross-entity journals to be posted during the financial year. This is an improvement from the number posted in the prior year. The Council has investigated options for implementing the recommendation made last year: 'cross entity journals should be prevented from being posted in the ledger'. It is not possible to stop this function within the tri-borough GL so a compensating control has been put in place. The Council receives a daily report showing any incidences of cross-entity journals and confirmation that these balance to zero across the tri-borough GL. The accounts closedown and production was a smoother process in 2016/17 as the finance team could rely on the Agresso system reports and manual intervention and checking was not required. We have received sufficient assurance that the managed service partnership is being actively monitored by the Council and appropriate action is taken by management to ensure the accounts were produced in line with the 2016/17 timetable.</p>
<p><b>Appeals Provision for National Non-Domestic Rates (Business Rates)</b>            Westminster City Council's provision for business rates appeals 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.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed management's processes and assumptions for the calculation of the estimate.</li> <li>• Tested the calculation and agreement to supporting documentation</li> <li>• Reviewed the disclosures made by the Council in its financial statements.</li> </ul>	<p>We have received management's judgements and assumptions made in calculating the provision.</p> <p>The provision has reduced significantly in 2016/17 and we are satisfied with management's judgements for the movement in year after challenging the assumptions made and confirm it is materially fairly stated.</p>

# Audit of the accounts – Council (continued)

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Changes to the presentation of local authority financial statements</b> CIPFA has been working on the 'Telling the Story' project, for which the aim was to streamline the financial statements and improve accessibility to the user and this has resulted in changes to the 2016/17 CIPFA Code of Practice. The changes affect the presentation of income and expenditure in the financial statements and associated disclosure notes. A prior period adjustment (PPA) to restate the 2015/16 comparative figures is also required.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"> <li>documented and evaluated the process for the recording the required financial reporting changes to the 2016/17 financial statements</li> <li>reviewed the re-classification of the Comprehensive Income and Expenditure Statement (CIES) comparatives to ensure that they are in line with the Council's internal reporting structure</li> <li>reviewed the appropriateness of the revised grouping of entries within the Movement In Reserves Statement (MIRS)</li> <li>tested the classification of income and expenditure for 2016/17 recorded within the Cost of Services section of the CIES</li> <li>tested the completeness of income and expenditure by reviewing the reconciliation of the CIES to the general ledger</li> <li>tested the classification of income and expenditure reported within the new Expenditure and Funding Analysis (EFA) note to the financial statements</li> <li>reviewed the new segmental reporting disclosures within the 2016/17 financial statements to ensure compliance with the CIPFA Code of Practice.</li> </ul>	<p>Our review of the restated Comprehensive Income and Expenditure analysis and new EFA note did not identify any issues. We did carry out early work on the restated 2015/16 figures but these changed in the draft version of the 2016/17 accounts so we re-performed this review. The reason for the change in analysis is due to additional review at the accounts preparation stage. We requested that further disclosure was included in the accounts in respect of the reasons for the change in presentation for the CIES restatement.</p>

# Audit of the accounts – Pension Fund

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the audit of the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Managed Services Partnership (MSP)</b> 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. 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. Significant improvements have been made since the previous year but there remains a risk to the audit opinion.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• updated our understanding of the Council and Fund's relationship with the managed service provider during the 2016/17 year</li> <li>• reviewed the control environment around the posting of journals on the ledger and how these operate across the tri-borough</li> <li>• reviewed the service provision arrangements to ensure that the Council had sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2017.</li> </ul>	<p>The Council has continued to proactively manage the system and service delivery throughout the 2016/17 financial year. Officers of the Council have continued to visit the BT offices to ensure that the improved system controls are effectively operating throughout the year. Senior officers from BT have met regularly with Council management and have attended special meetings of the Audit &amp; Performance Committee to update TCWG on progress being made to improve service delivery for the year end.</p> <p>Improvements have been made to the journal control environment although the Council are still unable to obtain a report of who posted and authorised every journal from BT. The weakness identified in the prior year in respect of the cross-entity journals has not occurred in 2016/17 for the Pension Fund (although cross-entity journals were found in the Council's journal population).</p> <p>We have identified a weakness in relation to the information flow from the managed services system to the pensions administrator team at Surrey. This has led to a significant backlog in updating the member data during the year. Also, the automated interface function has not yet been implemented and a manual process has been in place throughout the year. We have received sufficient assurance that the managed service partnership is being actively monitored by the Council and appropriate action is taken by management to ensure the accounts were produced in line with the 2016/17 timetable.</p>
<p><b>Level 3 Investments Valuation is incorrect</b> Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>• verified the investment balances to the fund manager and custodian report</li> <li>• reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments, including the management judgement for amending the classification.</li> </ul>	<p>Our audit work has not identified any significant issues in relation to the risk identified. Management has documented its judgement for changing the fair disclosure category movements in the 2016/17 accounts. Enhanced narrative has been added to the accounts to explain managements judgement.</p>

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# Audit of the accounts

## **Audit opinion**

We gave an unqualified opinion on the Council's accounts on 18 July 2017, in advance of the 30 September 2017 national deadline.

The Council made the accounts available for audit in line with the agreed timetable of 6 April 2017, and provided a good set of supporting working papers. This submission date is nearly three months ahead of the statutory deadline for local authorities. The finance team responded promptly and efficiently to our queries during the audit which enabled us to complete the majority of audit testing by early May 2017.

## **Issues arising from the audit of the accounts**

We reported the key issues from our audit of the accounts of the Council to the Council's Audit and Performance Committee on 11 May 2017 and updated for the final findings on 17 July 2017.

## **Pension fund accounts**

We also reported the key issues from our audit of accounts of the Pension Fund hosted by the Council to the Audit and Performance Committee on 11 May 2017 and updated for the final findings on 17 July 2017.

## **Annual Governance Statement and Narrative Report**

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website with the draft accounts in line with the national deadlines.

Both documents were prepared in line with the relevant guidance and were consistent with the supporting evidence provided by the Council and with our knowledge of the Council.

## **Whole of Government Accounts (WGA)**

We carried out work on the Council's consolidation schedule in line with instructions provided by the NAO. We issued a group assurance certificate which did not identify any issues for the group auditor to consider on 29 September 2017.

## **Other statutory duties**

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We received one objection in relation to the 2016/17 accounts and are currently concluding our procedures before responding formally to the elector.

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# Value for Money conclusion

## **Background**

We carried out our review in accordance with the NAO Code of Audit Practice (the Code), following the guidance issued by the NAO in November 2016 which specified the 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.*

## **Key findings**

Our first step in carrying out our work was to perform a risk assessment and identify the key risks where we concentrated our work.

The key risk we identified and the work we performed is set out in the table overleaf.

## **Overall VfM conclusion**

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017.

# Value for Money

## Value for money risk

Risk identified	Work carried out	Findings and conclusions
<p><b>Significant capital projects</b> The capital programme includes a number of key projects and investments, which are significant both in scale and financial terms. The Council recognised in 2015/16 that there was a weakness in arrangements and introduced a new business case process for all major schemes.</p>	<p>We reviewed the project management and risk assurance frameworks established by the Council for the more significant projects, to establish how it was identifying, managing and monitoring these risks. We also reviewed any business cases that are near completion or approved by members by the end of the financial year.</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 two years 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 2015/16 and this has been used for all new major schemes this year.</p> <p>The business case approach has started to become embedded across the team and there is a wider understanding of the people developing the cases for the level of detail required across the five key areas of the business case: strategic; economic; commercial; financial; and management. Training has been provided to all people involved in the process. These key areas ensure that all key information is provided to the Executive Director and Cabinet Member for making the decision about investment and has seen an increase in the challenge provided by members before a decision about the scheme is made. This has given greater transparency to the major capital schemes.</p> <p>The Council's Capital Review Group (CRG) 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>During 2015/16, one business case was completed for the City Hall refurbishment. This will be finalised in May 2017 and will be formally approved by Cabinet.</p> <p>There are three new business cases for 2016/17 that have gone through the review process with the CRG. These are: Beachcroft; West End Partnership (WEP) Oxford Street; and WEP Strand. In addition, there are three more in draft stage. This shows that the business case process is being utilised for the major schemes in the Council's capital programme. This has given greater transparency to the major capital schemes.</p> <p><b>On that basis we concluded that the risk was sufficiently mitigated and the Council has proper arrangements.</b></p>

# Appendix A: Reports issued and fees

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

## Fees

	Proposed fee £	Actual fees £	2015/16 fees £
Statutory audit of Council	185,719	185,719	211,362
Statutory audit of Pension Fund	21,000	21,000	21,000
Housing Benefit Grant Certification	22,410	22,410	25,386
Challenge work	0	0	25,000
<b>Total fees (excluding VAT)</b>	<b>229,129</b>	<b>229,129</b>	<b>282,748</b>

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

## Reports issued

Report	Date issued
Audit Plan	January 2017
Audit Findings Report	May / July 2017
Annual Audit Letter	October 2017

## Fees for other services

Service	Fees £
<b>Audit related services:</b>	
• Teachers' pensions grant	3,500
<b>Non-audit services</b>	
• Subscription to CFO insights	9,500

### Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all other services which were identified.
- We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place, as reported in our Audit Findings Report.

# Reports issued and fees (continued)

We have considered whether other services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards have been applied to mitigate these risks.

	Service provided to	Fees	Threat identified	Safeguards
<b>Audit related services</b>				
Teachers' pensions return	Westminster City Council	3,500	<ul style="list-style-type: none"> <li>None identified</li> </ul>	The fee for this work is negligible in comparison to the total fee for the audit and in particular Grant Thornton UK LLP's turnover overall. In addition, the Council prepares all the figures in the Teachers' Pensions return.
<b>Non-audit services</b>				
Subscription to CFO Insights	Westminster City Council	9,500	<ul style="list-style-type: none"> <li>Self-interest threat</li> </ul>	<p>The fee is a recurrent subscription and thus gives high self-interest threat. However, the fee for this work is negligible in comparison to the total fee for the audit and in particular, Grant Thornton UK LLP's turnover overall. It is also a fixed fee with no contingent element. We consider that these factors all mitigate the perceived self-interest threat to an acceptable level.</p> <p>CFO Insights does not provide any advice; the tool provides only information and insight to help inform decision making by officers. It is the responsibility of the Council officers who use the service to undertake informed interpretation of the information provided. The Grant Thornton team that operates this service is separate to the audit team.</p>
	<b>TOTAL</b>	<b>£13,000</b>		

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor and have been approved by the Audit and Performance Committee.



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