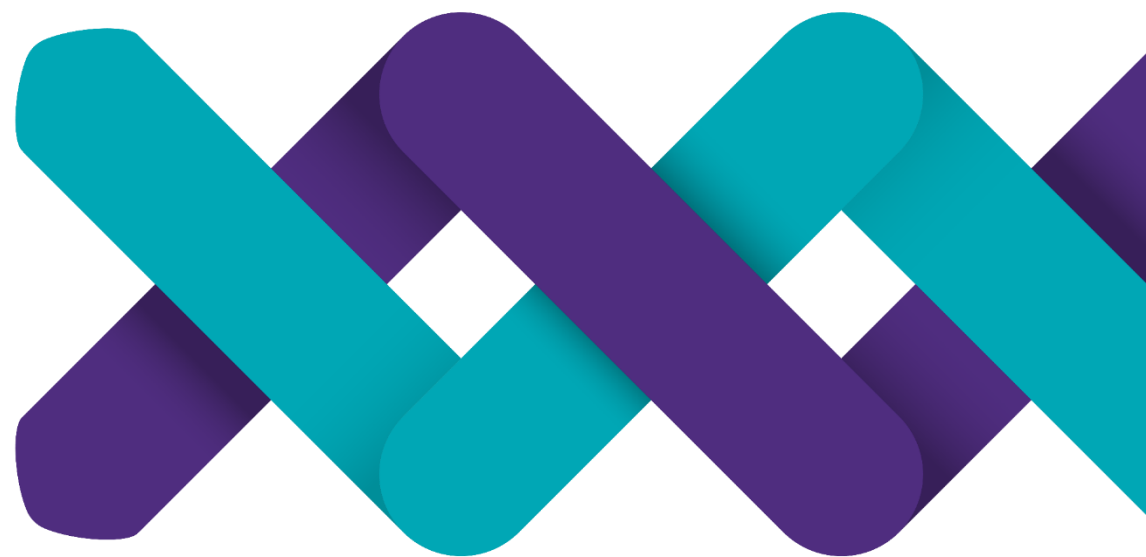


# Audit Progress Report

Westminster City Council  
2018/19

April 2019



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## PSAA Contract Monitoring

Westminster City Council opted into the Public Sector Audit Appointments (PSAA) Appointing Person scheme which starts with the 2018/19 audit. PSAA appointed Grant Thornton as auditors. PSAA is responsible under the Local Audit (Appointing Person) Regulations 2015 for monitoring compliance with the contract and is committed to ensuring good quality audit services are provided by its suppliers. Details of PSAA's audit quality monitoring arrangements are available from its website, [www.psaa.co.uk](http://www.psaa.co.uk).

Our contract with PSAA contains a method statement which sets out the firm's commitment to deliver quality audit services, our audit approach and what clients can expect from us. We have set out our commitment to deliver a high quality audit service in the document at Appendix A. We hope this is helpful. It will also be a benchmark for you to provide feedback on our performance to PSAA via its survey in Autumn 2019.

# Audit Progress – Our Approach

This Audit Progress Report sets out the work performed to date on the audit of the Council's financial statements, and the observations arising so far that we believe warrant the attention of those charged with governance. Its contents have been discussed with management.

## Audit approach

As set out in our Audit Plan, our audit approach was based on a thorough understanding of the Council's (and group's) business and is risk based. In particular, our planned approach includes:

- An evaluation of the Council's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks; and
- An evaluation of the components of the group, considering each as a percentage of the group's gross revenue expenditure to assess the significance of each component and to determine an appropriate audit response.

## Work completed to date

Our audit of the Pension Fund is substantially complete, and the results of the audit are detailed in the Audit Findings Report presented separately to this Committee.

We completed our work on the transfer of the Council's ledger balances from Agresso to SAP as part of our interim work. See page 6 for more detail.

The Council's audit is not as advanced as we had planned. The finance team experienced delays when preparing the accounts, due to unfamiliarity with the new ledger system, and we did not receive financial statements until 16 April. This has delayed our sampling and testing in a number of areas. We are also finalising our work on the Council's arrangements for securing Value for Money in particular the arrangements in place to manage potential risks associated with Brexit.

We set out further detail in the remainder of this update report. We plan to bring a detailed Audit Findings Report to this Committee in June 2019 once we have finalised our work.

## Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our headline materiality calculations remain the same as reported in our Audit Plan. We have reduced our performance materiality threshold for the audit of the Council as a result of the issues that the finance team have experienced during the closedown process.

We detail in the table below our determination of materiality:

	Group Amount	Council Amount
Overall materiality for the financial statements	£19.9m	£19.8m
Performance materiality	£13.9m	£12.9m
Trivial matters	£990k	£990k

# Audit Progress – Significant Risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. The table below sets out the work we have performed to date to address the significant risks that we identified in our Audit Plan.

We will communicate significant findings in these areas as well as any other significant matters arising from the audit to the Council and Fund in our Audit Findings Report in June 2019.

## Risks identified in our Audit Plan

## Work performed to date

### The risk that revenue includes fraudulent transactions

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Having considered the risk factors set out in ISA240 and the nature of the Council's and the Fund's revenue streams, we determined that the risk of fraud arising from revenue recognition could be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.

Therefore we do not consider this to be a significant risk.

We have included further information on our work on the Council's revenues on page 7.

### Management over-ride of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.

We have undertaken the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals;
- completed detailed testing of journals posted in the Agresso ledger in months 1-8 that we deemed to be unusual, using a risk-based approach;
- analysed the journals listing and determined the criteria for selecting high risk unusual journals; and
- evaluated the Council's rationale for any changes in accounting policies and estimates.

We still need to:

- test those journals recorded during the year that we have deemed unusual (including any posted after the draft accounts stage) for appropriateness and corroboration;
- finalise our understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; and
- give due consideration to any significant unusual transactions we find during our audit work.

Our work to date has not identified any issues in respect of management override of controls.

## Risks identified in our Audit Plan

## Work performed to date

### Valuation of land and buildings

The Council revalue land and buildings on an annual basis to ensure that the carrying value is not materially different from the value at the financial statements date. This valuation represents a significant estimate by management in the financial statements.

Management have engaged the services of a valuer to estimate the current values and fair values of their assets as at 31 March 2019.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk.

We have undertaken the following work in relation to this risk:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;
- evaluated the competence, capabilities and objectivity of the valuation expert; and
- written to the valuer and confirmed the basis on which the valuations were carried out.

We still need to:

- finalise our challenge of the information and assumptions used by the valuer, assessing its completeness and consistency with our understanding of the Council's assets;
- finish our testing of a sample of revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the asset register and financial statements; and
- evaluate the assumptions made by management for any assets that were not revalued at 31 March 2019, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.

The work that we have completed to date has not found any issues with the processes that the valuer has undertaken, however we still have a significant level of work to complete in this area, and a number of queries outstanding with the Council. This may result in adjustments to the accounts as currently presented.

### Valuation of the pension fund net liability

The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.

The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.

We therefore identified valuation of the Council's pension fund net liability as a significant risk.

We have undertaken the following work in relation to this risk:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- assessed the accuracy and completeness of the information provided to the actuary to estimate the liability; and
- tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.

We still need to:

- finish our procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of PWC as consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report once it is available in May

The Council initially provided us with a disclosure note to audit that was based on an actuarial valuation performed at 28 February 2019. As the movement between this valuation and the final valuation at 31 March 2019 was material, the Council have amended this disclosure to be consistent with the year-end valuation.

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**Risks identified in our Audit Plan****Work performed to date**

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**Appeals Provision for National Non-Domestic Rates (Business Rates)**

The Council's provision for business rates appeals remains 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.

We have undertaken the following work in relation to this risk:

- monitored how the appeals process is affecting the Council and considered any changes in the methodology used to calculate the provision;
- identified the controls put in place by management to ensure that the appeals provision is not materially misstated, and assessed whether these controls were implemented as expected;
- reviewed the assumptions made by management and the processes used in calculating the estimate;
- tested the Council's calculation and agreed it to relevant supporting documentation; and
- reviewed the disclosures made by the Council in the financial statements.

Our work has not identified any significant issues with the calculation of the appeals provision balance.

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**Incomplete or inaccurate financial information transferred to the new general ledger**

In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system.

We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have undertaken the following work in relation to this risk:

- reviewed the Council's arrangements and controls over the transfer of data from the old system to the new system, and the controls over the completeness and accuracy of data transferred;
- mapped the closing balances from the redundant general ledger (Agresso) to the opening balance position in the new ledger (SAP) to assess accuracy and completeness of the financial information; and
- completed an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new general ledger system.

We are satisfied that the data transfer of balances from Agresso to SAP was accurate and complete.

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# Audit Progress – Other Work

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, in addition to the risks set out above. These procedures will not be as extensive as the procedures adopted for the significant risks of material misstatement that we have identified.

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## Work Area

## Work performed to date

### Income and Expenditure

In order to test the Council's income and expenditure, we split transactions into classes of transactions of different natures. Broadly, this split is as follows:

For expenditure:

payroll costs; schools expenditure; housing benefit expenditure; operating expenditure; and other one-off transactions such as depreciation.

For income:

grant revenues; HRA revenues; collection fund revenues; and other revenues.

We have:

- completed sample testing on housing benefit claims in year;
- completed testing on a sample of operating expenditure, schools expenditure, and other revenues for the first 10 months of the year as part of our interim visits; and
- completed testing of all individually material grants.

We still need to:

- finish our analytical review of the Council's housing benefit expenditure for the year;
- finish our analytical review of the Council's payroll costs, supported by testing of samples of starters and leavers throughout the year;
- finish our analytical reviews of HRA and collection fund revenues, supported by testing of significant reconciling items;
- map transaction listings for the whole year to the CIES, and reconcile these to the populations tested at interim, in order to top-up our sample testing of operating expenses, grant revenues and other income for the full year.

We have found no issues during the work that we have completed so far, but there are a number of areas where significant levels of testing are unfinished.

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### Property, Plant and Equipment and Investment Property

In addition to the transactions relating to the revaluations of properties, there are other areas of capital where we perform work.

This year will be performing testing on PPE additions and disposals, and reclassifications of assets, as well as REFCUS transactions.

We have:

- tested a sample of disposals in year and confirmed that these were recognised appropriately.

We still need to:

- finish our testing of capital additions and REFCUS back to supporting documentation provided by the Council;
- gain assurance that assets reclassified between operational properties and investment properties in-year were treated appropriately, through corroborating a sample of these reclassifications; and
- complete an analytical review of the depreciation that the Council has recognised for the year.

We have found no issues during the work that we have completed so far, but there are a number of areas where significant levels of testing are unfinished.

## Work Area

## Work performed to date

### Cash, Cash Equivalents, Investments and Borrowing

These balances are agreed to third party evidence wherever possible, and their classification in the balance sheet is checked for appropriateness.

We have:

- written to all banks and counterparties that the Council held funds with at the end of the financial year; and
- agreed balances outstanding with the PWLB to the information published by the DMO.

We still need to:

- review the Council's year-end bank reconciliation; and
- obtain responses from counterparties who are yet to respond to our requests to corroborate the Council's investment balances.

We have found no issues during the work that we have completed so far. We continue to pursue the outstanding responses from counterparties.

### Debtors and Creditors (including receipts in advance)

We perform testing on these balances in order to gain assurance that the debtor and creditor figures included in the balance sheet are reasonable.

We also look to gain assurance that the balances are complete, and that the Council's year-end processes address the risk of material misstatement.

We still need to:

- obtain and review supporting evidence for our selected samples of debtors, creditors and receipts in advance;
- finish our review of the Council's impairment of its debtor balances, taking into account the changes under IFRS 9;
- obtain and review supporting evidence for our selected sample of payments both made and received by the Council after 31 March 2019, to gain assurance that there are no errors arising relating to the cut-off of income or expenditure; and
- obtain and review the Council's own assessment of the adequacy of its accruals processes, based on their formal review of the prior year accruals against their outturn.

Our work to date has primarily consisted of sample selection, and at the time of writing this report we are awaiting supporting information for a number of sample items and queries from the Council.

### Provisions and Contingencies

In addition to the provision for NDR appeals discussed above, the Council has other material provisions balances which we will perform testing on.

We will also consider the completeness of both the Council's provisions and contingent liabilities.

We still need to:

- obtain and review supporting calculations and corroborating evidence for our selected sample of provisions included in the financial statements; and
- consider any circumstances relevant to the Council that might mean that items have been omitted from the disclosed provisions and contingent liabilities.

Our work to date has consisted of sample selection, and at the time of writing this report we are awaiting supporting information the selected items.



## Work Area

## Work performed to date

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### Other disclosures and consistency checks

For other disclosures in the financial statements, we ensure that the figures included are consistent with the primary statements and with supporting financial records.

We have:

- obtained and reviewed the Council's supporting records for disclosures relating to remuneration and exit packages, trading operations, pooled budgets, and agency services.

We still need to:

- complete our work on the disclosures relating to the Council's leases and service concessions; and
  - complete our work on the Council's reserves disclosures, where we have noted inconsistencies between the various disclosures in the first draft of the financial statements.
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# Audit Progress – Group Accounts

In accordance with ISA (UK) 600, as your group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. The group audit does not include the Pension Fund.

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## Group audit approach

At the time of our planning risk assessment, we determined that the Council was the only significant group component, but that the financial statements of both Westminster Community Homes and City West Homes contained balances that had a material impact on the consolidated financial statements.

Since then, City West Homes was absorbed back into the Council.

The valuation of the Property, Plant and Equipment within the financial statements of Westminster Community Homes is a material balance in the consolidated accounts, and we will perform specific procedures on these balances.

The other entities in the group are not considered significant, and do not give rise to a risk of material misstatement of the group accounts. These transactions and balances will be subject to analytical procedures.

## Work completed to date

We have not yet begun our work on the Group accounts, as the Council have yet to provide us with a version that is consistent with the single-entity accounts of Westminster City Council.

We have reviewed the disclosure of the absorption of City West Homes into the Council in the Council's financial statements, with no issues noted.

# Next Steps



## Local Government audits 2018/19 and beyond

### Grant Thornton's External Audit commitment

Audit 2018/19

#### Our team

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*"I have always been extremely pleased with the work done by colleagues from Grant Thornton, there is continuity of staff delivering the team who presented the bid. This continuity remains through the cycle of work that takes place during the year; allowing the team to continue to understand the corporate objectives whilst allowing us to ensure we comply with the required standards. The team are very friendly and approachable with an accommodating style".*

*Director of Finance, local audited body*

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach

## Our relationship with our clients – why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLCAE, the Society of Treasurers, the Association of Directors of Adult Social Care and others.
- We propose a realistic fee, based on known local circumstances and requirements.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management

At a wider level, the political environment remains complex:

- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery



- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections



- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people



- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality



- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQR T

### Our technical support



- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies

*"I have found Grant Thornton to be very impressive.....they bring a real understanding of the area. Their insights and support are excellent. They are responsive, pragmatic and, through their relationship and the quality of their work, support us in moving forward through increasingly challenging times. I wouldn't hesitate to work with them."*

Director of Finance, County Council

