

# The Audit Findings for Westminster City Council

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Year ended 31 March 2019

June 2019



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

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## Headlines

This table summarises the key findings and other matters arising from the statutory audit of Westminster City Council ('the Council') and the preparation of the group and Council's financial statements for the year ended 31 March 2019 for those charged with governance.

|  |   |  |
|--|---|--|
| <p><b>Financial Statements</b></p>         | <p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> <li>• give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and</li> <li>• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.</li> </ul> <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> | <p>Our audit work was completed on site during April, May and June. Our findings are summarised on pages 5 to 15. We have identified adjustments to the financial statements that have resulted in an adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion, which is included as Appendix F, subject to the completion of outstanding work detailed in Appendix A.</p> <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited.</p> <p>Our anticipated audit report opinion will be unmodified.</p> |
| <p><b>Value for Money arrangements</b></p> | <p>Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').</p>  | <p>We have completed our risk based review of the Council's value for money arrangements. We have concluded that Westminster City Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix F. Our findings are summarised on pages 18 to 20.</p>   |
| <p><b>Statutory duties</b></p>             | <p>The Local Audit and Accountability Act 2014 ('the Act') also requires us to:</p> <ul style="list-style-type: none"> <li>• report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and</li> <li>• To certify the closure of the audit.</li> </ul>  | <p>We have not exercised any of our additional statutory powers or duties.</p> <p>We have completed the majority of work under the Code but are unable to issue our completion certificate until we complete our work on the Council's Whole of Government Accounts return.</p>  |

### Acknowledgements

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

# Summary

## Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and will be presented to the Audit Committee.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, 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.

## 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 our determination of materiality in the table below:

|  | 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 approach

Our audit approach was based on a thorough understanding of the Council's and group's business and is risk based, in particular our approach included:

- An evaluation of the Council's and group's internal controls environment, including 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.

We have not had to alter or change our audit plan, as communicated to you in February 2019.

## Audit delivery

The Council's audit has not progressed as smoothly as in previous years, and there has been a significant impact on the delivery of our work. 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 2019.

We consider that the accounts presented for audit were, in the context of the new ledger implementation, not of the same standard as previous years and contained a significant number of errors and inconsistencies, which delayed our sampling and testing in a number of areas.

At the time of writing this report, we are still completing our work in a number of areas, which are detailed on Appendix A.

## Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries detailed in Appendix A being resolved, we anticipate issuing an unqualified audit opinion following the end of the public inspection period and the Audit and Performance Committee meeting on 17 June 2019. Our proposed opinion is detailed in Appendix F.

# Significant findings – audit risks

| Risks identified in our Audit Plan  | Commentary  |
|---|---|
| <p><b>1</b> <b>The risk that revenue includes fraudulent transactions</b></p> <p>Under ISA (UK) 240 there is a rebuttable 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 Council's and the Fund's revenue streams, 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; and</li> <li>• the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable.</li> </ul> <p><b>Therefore we do not consider this to be a significant risk.</b></p> <p>We have however:</p> <ul style="list-style-type: none"> <li>• evaluated the Council's accounting policy for recognition of revenues for appropriateness;</li> <li>• performed substantive testing on material revenue streams; and</li> <li>• reviewed unusual significant transactions.</li> </ul> <p>Subject to the completion of outstanding testing, our audit work has not identified any issues in respect of improper revenue recognition.</p> |
| <p><b>2</b> <b>Management override of controls</b></p> <p>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 face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Council, which was one of the most significant assessed risks of material misstatement.</p> | <p>We have:</p> <ul style="list-style-type: none"> <li>• evaluated the design effectiveness of management controls over journals;</li> <li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li> <li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li> <li>• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and</li> <li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul> <p>Subject to the completion of outstanding testing, our audit work has not identified any issues in respect of management override of controls.</p>   |

# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

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### 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 current value (or fair value for surplus and investment assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.

Management have engaged the services of a valuer to estimate the appropriate values as at 31 March 2019.

We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.

We have:

- 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;
- written to the valuer to confirm the basis on which the valuations were carried out;
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements;
- evaluated the assumptions made by management for any assets 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.

Our audit work identified the potential for a material movement in the valuation of the Council's HRA properties between the valuation date of 1 April 2018 and the balance sheet date and regulatory requirements require us to assess whether or not HRA values are fairly stated at 31 March 2019. The Council's valuer confirmed that, based on available indices, a valuation at 31 March 2019 would have been approximately £85.6m lower than that on 1 April 2018. The Council have therefore adjusted the financial statements to include this lower valuation to ensure that the balance sheet is not materially misstated. Further detail on this adjustment is included on page 27.

During our work on the movement in the Council's HRA balances, we noted that the Council estimate the value of the land element of the HRA for the purposes of depreciation. The estimate used has remained the same for a number of years, with no formal reassessment. We are satisfied that there is not a risk of material misstatement as a result of this, but have raised a recommendation that management reconsider this estimate during 2019/20.

Work performed on the Council's revaluations identified that revaluations provided by the valuer were incorrectly processed by the Council, leading to an understatement of the total gain on revaluations. In addition, we noted that the Council had not considered enhancements made to buildings during the year when calculating gains on revaluations. Detail of the resulting adjustments is included on page 27.

The Council reclassified a number of assets between operational properties and investment properties during 2018/19. We have identified issues with these reclassifications, as detailed on page 29.

Recommendations that have been raised as a result of our work are included in Appendix B.

Subject to the completion of outstanding work, we have not identified any other issues in respect of valuation of land and buildings.

## Significant findings – audit risks

### Risks identified in our Audit Plan

### Commentary

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#### Valuation of 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 and group accounts.

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, which was one of the most significant assessed risks of material misstatement.

We have:

- 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; and
- assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;
- 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 have not yet completed our procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.

The Council initially provided us with pension disclosures that were based on IAS19 valuations at 28 February 2019. These were subsequently revised based on the valuation at 31 March 2019, resulting in adjustments to the financial statements. Further detail on these is included on page 28.

Subject to the completion of outstanding testing, our audit work has not identified any other issues in respect of the valuation of the Council's pension fund net liability.

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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.

## Significant findings – audit risks

### Risks identified in our Audit Plan

#### 6 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.

### Commentary

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, evaluated and tested 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.

## Group financial statements

### Risks identified in our Audit Plan

Along with the full audit procedures on the Council's financial statements, we are required to complete specific procedures on transactions and balances within the financial statements of other bodies in the group, where those transactions and balances are material to the group's financial statements.

### Commentary

The draft group financial statements were prepared using an incorrect version of the Council's single entity financial statements, before the inclusion of the Council's prior period adjustments

We have completed our procedures on the other entities within the group that are individually significant elements of the group financial statements with no issues noted.

Subject to the completion of our procedures on the Council's single entity accounts, our work on the consolidation process has not identified any issues.

## Significant findings - other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

| Issue   | Commentary  | Auditor view  |
|---|---|---|
| <p><b>Bank reconciliation</b></p> <p>Due to timing differences around the end of the financial year, the bank balance disclosed in an entity's Balance Sheet may not agree directly to the balance held in their bank account.</p> <p>Every entity should be able to reconcile the two numbers, demonstrating the transactions that make up the difference.</p> <p>At the end of May 2019, the Council are still unable to fully reconcile their bank balance at the end of the financial year.</p> | <p>The Council provided us with the bank reconciliation as it stood on 29 May 2019. At that date there was an unreconciled difference of £292k.</p> <p>In addition, review of the reconciliation highlighted other issues, as follows:</p> <ul style="list-style-type: none"> <li>• cash received totalling £5,125k was entered into the Income Manager module, but did not transfer properly to the general ledger, meaning that the Council's cash balance was understated, and debtors were overstated. This adjustment has no impact on the Council's income or expenditure.</li> <li>• an amount of £1,096k relating to pension strain was incorrectly posted to a VAT general ledger code and therefore reversed, but this amount was never re-posted.</li> </ul> <p>Further detail on these adjustments is included on page 29.</p> <p>Our work on the Council's bank reconciliation, including one key outstanding query, is still in progress.</p> | <p>There is a risk that this trivial unreconciled amount may be made up of a number of differences, which impact on many areas of the financial statements. Without a fully reconciled bank balance it is impossible to rule out or isolate potential errors.</p> <p>Being unable to fully reconcile the bank balance is a significant control weakness for the Council, as errors in cash can be pervasive to the financial statements. We have raised a recommendation in Appendix B that this be rectified as soon as possible.</p> <p>We are satisfied that the unreconciled balance is not indicative of a risk of material misstatement of the financial statements, as the balance itself is below our clearly trivial threshold and we have not found issues elsewhere in our work on the Council's financial statements that would impact on cash (any error within this unreconciled balance would have to have an impact elsewhere in the financial statements due to double entry rules).</p> |

## Significant findings – key judgements and estimates

| Accounting area  | Summary of management's policy  | Audit Comments   | Assessment  |
|--|---|--|---|
| <b>Council Dwellings</b><br>Draft: £1,666m<br>Final: TBC | <p>The Council owns 20,767 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council has engaged Sanderson Weatherall to complete the valuation of these properties. In the draft financial statements, the year end valuation of Council Housing was £1,666m, a net increase/decrease of £223m from 2017/18 (£1,443m).</p> <p>The Council instruct their valuer to provide valuations as at 1 April each year, and management then consider the potential change over the course of the year to determine whether there has been a material change in the total value of these properties.</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method this year.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>We have considered the potential movement between the valuation date of 1 April 2018 and the end of the financial year, using indices provided by Gerald Eve as our auditor's expert. As discussed on page 6, following our consideration the Council's valuer confirmed that, based on available indices, a valuation at 31 March 2019 would have been approximately £85.6m lower than that on 1 April 2018. The Council have now adjusted the financial statements to include this lower valuation.</li> </ul> <p>We are still finalising our work on the Council's valuations.</p> |  |

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Significant findings – key judgements and estimates

| Accounting area  | Summary of management's policy  | Audit Comments  | Assessment  |
|--|---|---|---|
| <b>Investment Property</b><br>Draft: £473m<br>Final: £473m | <p>The Council has a number of assets that it has determined to be investment properties. Investment properties must be included in the balance sheet at fair value (the price that would be received in an orderly transaction between market participants at the measurement date) so these assets are valued every year at 31 March.</p> <p>The Council has engaged Sanderson Weatherall to complete the valuation of these properties. The year end valuation of the Council's investment property was £473m, a net increase/decrease of £88m from 2017/18 (£385m).</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have challenged the appropriateness of the classification as investment for a sample of properties. We have not identified any issues in the current year, but have identified an asset that was misclassified in the prior year as a result of our work.</li> </ul> <p>We are still finalising our work on the Council's valuations.</p> |  |

### Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Significant findings – key judgements and estimates

| Accounting area  | Summary of management's policy  | Audit Comments  | Assessment  |
|--|---|---|---|
| <b>Other Land and Buildings (GF &amp; HRA)</b><br>Draft: £653m<br>Final: TBC | <p>The Council has engaged Sanderson Weatherall to complete the valuation of these properties. Each year, approximately 20% of assets are subject to a full, formal valuation process on a five yearly cyclical basis. The other 80% are subject to a formal desktop valuation to ensure that the values are updated in line with market movements. There are therefore no properties that are not valued at the 31 March each year.</p> <p>Other land and buildings revalued in 2018/19 comprised £84m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings revalued in 2018/19 (£29m) are not specialised in nature and are required to be valued at existing use value (EUJ) at year end.</p> <p>The valuation of properties valued by the valuer has resulted in a net increase of £139m.</p> <p>The total year end valuation of Other land and buildings was £653m, a net increase of £90m from 2017/18 (£563m).</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the valuation expert used by the Council.</li> <li>There have been no changes to the valuation method this year.</li> <li>We have considered the movements in the valuations of individual assets and their consistency with indices provided by Gerald Eve as our auditor's expert. This work has not raised any issues with the 2018/19 valuations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>We have considered the completeness and accuracy of the underlying information used to determine the estimate, and have noted the following issues:             <ul style="list-style-type: none"> <li>The Council did include additions and enhancements made to assets that were revalued when calculating the gain or loss on revaluations.</li> <li>The Council did not process all valuations performed by the valuer when updating the Fixed Asset Register and the general ledger.</li> </ul> </li> </ul> <p>Adjustments have been agreed as a result of our findings, as detailed on pages 27 and 28.</p> <p>We are still finalising our work on the Council's valuations.</p> |  |

### Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process is appropriate and key assumptions are neither optimistic or cautious

# Significant findings – key judgements and estimates

| Accounting area  | Summary of management's policy  | Audit Comments  | Assessment |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
|--|---|---|------------|---------------|--------------------|------------|---------------|-------|---------------|---|-----------------------|-------|---------------|---|---------------|-------|----------------------------------|---|---|----------------------|----------------------------|---|---|----------------------|----------------------------|---|---|
| <b>Net pension liability</b><br>Draft: £705m<br>Final: £702m | <p>The Council's net pension liability at 31 March 2019 is £702m (PY £698m) comprising obligations under both the Westminster City Council Pension Fund Local Government pension scheme and the London Pensions Fund Authority scheme.</p> <p>The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes.</p> <p>A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements.</p> | <ul style="list-style-type: none"> <li>We have no concerns over the competence, capabilities and objectivity of the actuary used by the Council.</li> <li>We have used the work of PwC, as auditors expert, to assess the actuary and assumptions made by the actuary. See below for consideration of key assumptions in the Westminster City Council Pension Fund valuation:</li> </ul> <table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC expected range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.40%</td> <td>2.35% - 2.45%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>2.40%</td> <td>2.40% - 2.45%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>3.90%</td> <td>3.10% – 4.35%<br/>scheme-specific</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males<br/>currently aged 45 and 65</td> <td>45: 25.0<br/>65: 23.4</td> <td>22.2 – 25.0<br/>20.6 – 23.4</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females<br/>currently aged 45 and 65</td> <td>45: 26.6<br/>65: 24.8</td> <td>25.0 – 26.6<br/>23.2 – 24.8</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li>No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>There have been no changes to the valuation method since the previous year, other than the updating of key assumptions above.</li> <li>We have confirmed that the Council's share of the pension scheme assets is in line with expectations.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> </ul> <p>We are still completing our work on the Council's pension liabilities.</p> | Assumption | Actuary Value | PwC expected range | Assessment | Discount rate | 2.40% | 2.35% - 2.45% | ● | Pension increase rate | 2.40% | 2.40% - 2.45% | ● | Salary growth | 3.90% | 3.10% – 4.35%<br>scheme-specific | ● | Life expectancy – Males<br>currently aged 45 and 65 | 45: 25.0<br>65: 23.4 | 22.2 – 25.0<br>20.6 – 23.4 | ● | Life expectancy – Females<br>currently aged 45 and 65 | 45: 26.6<br>65: 24.8 | 25.0 – 26.6<br>23.2 – 24.8 | ● | ● |
| Assumption   | Actuary Value   | PwC expected range  | Assessment |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
| Discount rate  | 2.40%   | 2.35% - 2.45%   | ●          |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
| Pension increase rate  | 2.40%   | 2.40% - 2.45%   | ●          |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
| Salary growth  | 3.90%   | 3.10% – 4.35%<br>scheme-specific  | ●          |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
| Life expectancy – Males<br>currently aged 45 and 65          | 45: 25.0<br>65: 23.4  | 22.2 – 25.0<br>20.6 – 23.4  | ●          |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |
| Life expectancy – Females<br>currently aged 45 and 65        | 45: 26.6<br>65: 24.8  | 25.0 – 26.6<br>23.2 – 24.8  | ●          |               |                    |            |               |       |               |   |                       |       |               |   |               |       |                                  |   |   |                      |                            |   |   |                      |                            |   |   |

## Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

## Significant findings – key judgements and estimates

| Accounting area  | Summary of management's policy  | Audit Comments   | Assessment  |
|--|---|--|---|
| <b>Provisions for NNDR appeals</b><br>Draft: £126m<br>Final: £126m | <p>The Council are responsible for repaying a proportion of successful rateable value appeals. Management use historic data relating to appeal success rates and the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) to calculate the level of provision required.</p> <p>Due to the London NNDR Pooling arrangement, which was new in 2018/19, the Council's share of the liability has increased from 30% to 64%, and so the provision has increased by £60m in 2018/19.</p> | <ul style="list-style-type: none"> <li>We have not noted any issues with the completeness and accuracy of the underlying information used to determine the estimate.</li> <li>We have considered the approach taken by the Council to determine the provision, and it is in line with that used by other bodies in the sector.</li> <li>Disclosure of the estimate in the financial statements is considered adequate.</li> <li>There have been no changes to the calculation method this year, with the exception of the increase in the Council's share of the liability.</li> </ul>   |  |
| <b>Other accruals and estimates</b>                                | <p>The Council continues to apply estimates and judgements in a number of areas, such as:</p> <ul style="list-style-type: none"> <li>accruals of income and expenditure;</li> <li>recognition of school assets; and</li> <li>the preparation of group accounts.</li> </ul>  | <ul style="list-style-type: none"> <li>The policies for these items are in line with accounting standards and the requirements of the Code of Practice on Local Authority Accounting.</li> <li>Disclosure of the estimates in the financial statements is considered adequate.</li> <li>As part of our testing, we have reviewed the judgements applied by the Council relating to these items, and significant balances within these have been discussed with management in detail.</li> <li>Subject to the results of outstanding work, we have found no material misstatements in the financial statements relating to these balances.</li> </ul> |  |

### Assessment

-  We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
-  We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
-  We consider management's process and key assumptions to be reasonable

# Going concern

## Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

### Going concern commentary

### Auditor commentary

#### Management's assessment process

Management's assessment is that there is no reason to consider the Council is at risk of not being a going concern.

The Council have sufficient cash, investment and reserve balances to deliver their services for 12 months from the date of the financial statements without income contributions.

#### Work performed

We have:

- held regular discussions with officers throughout the year; and
- reviewed the Council's financial statements and financial forward planning.

The Council's financial forecasts show that it has sufficient assets available to meet its liabilities for the foreseeable future.

We have considered these forecasts, and the Council's past performance against its budgets, and have no concerns over the Council's financial plans.

#### Concluding comments

We intend to issue an opinion that is not modified in respect of Going Concern.

No events or conditions have been identified in the course of our audit that cast doubt on the entity's ability to continue as a going concern.

## Other communication requirements

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

| Issue   | Commentary  |
|---|---|
| <b>Matters in relation to fraud</b>                             | We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.   |
| <b>Matters in relation to related parties</b>                   | We are not aware of any related parties or related party transactions which have not been disclosed.  |
| <b>Matters in relation to laws and regulations</b>              | You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.  |
| <b>Written representations</b>                                  | A letter of representation has been requested from the Council, including specific representations in respect of the Group, which is included in the papers for this meeting.   |
| <b>Confirmation requests from third parties</b>                 | We requested from management permission to send confirmation requests to the Council's counterparties. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however a small number were not received so we undertook alternative procedures.  |
| <b>Disclosures</b>  | Our review found no material omissions in the financial statements, however there were a number of internal inconsistencies and errors in the first version that was provided to us. Management have agreed to amend for these issues. Further details of amendments made to the financial statements can be found in Appendix D.   |
| <b>Audit evidence and explanations/significant difficulties</b> | All information and explanations requested from management was provided, however as a result of the issues that the finance team have experienced during the closedown process, a number of required working papers were received late, the quality of the working papers that we received was varied, and there were a number of adjustments required to the financial statements. |

## Other responsibilities under the Code

| Issue  | Commentary  |
|--|---|
| ① <b>Other information</b>                                     | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>Inconsistencies were identified but have been adequately rectified by management. We plan to issue an unmodified opinion in this respect, as included in Appendix F.</p> |
| ② <b>Matters on which we report by exception</b>               | <p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> <li>• If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit</li> <li>• If we have applied any of our statutory powers or duties</li> </ul> <p>We have nothing to report on these matters.</p>  |
| ③ <b>Specified procedures for Whole of Government Accounts</b> | <p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we will need to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work will be completed in June, following receipt of instructions and guidance from the NAO.</p>   |
| ④ <b>Certification of the closure of the audit</b>             | <p>We are unable to certify the closure of the 2018/19 audit of Westminster City Council until the conclusion of the period of public inspection, and the completion of our procedures on the Council's WGA consolidation pack.</p>   |

# Value for Money

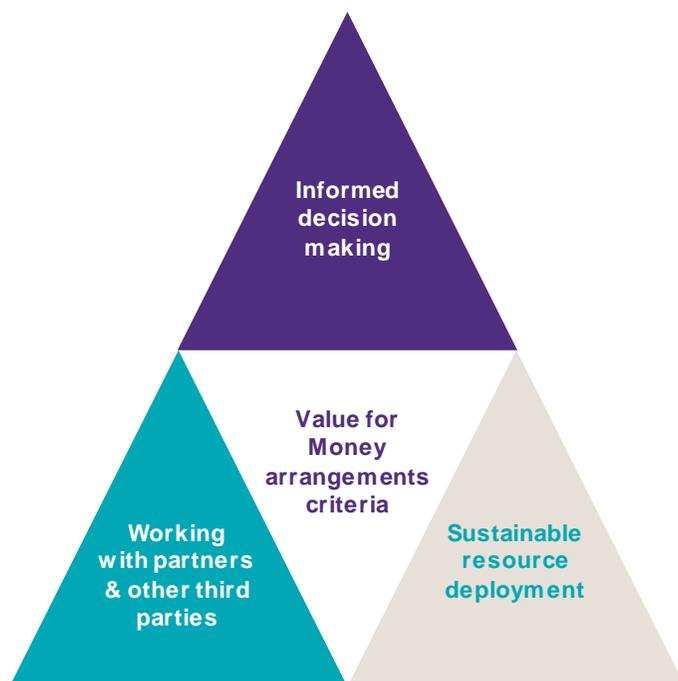
## Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 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:



## Risk assessment

We carried out an initial risk assessment in November 2018 and identified a significant risk in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated this risk to you in our Audit Plan dated December 2018.

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

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

## Our work

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

We have focused our work on the significant risks that we identified in the Council's arrangements.

Further details of the significant risk identified, the work we have performed, and the conclusions that we have drawn are included on the next page.

## Key findings

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

| Significant risk  | Findings   | Conclusion  |
|---|--|---|
| <p><b>Exit from the EU</b></p> <p>At the time of our planning and risk assessment, the UK was due to leave the European Union on 29 March. When Britain exits the EU, there will be national and local implications that will impact on the Council, which the Council will need to plan for.</p> | <p>We have reviewed the Council's arrangements and plans to mitigate any risks on Brexit.</p> <p>Our review focussed on areas such as workforce planning, supply chain analysis and impacts on finances including investment and borrowing as well as any potential impact on the valuation of the Council's assets.</p> | <p>At the time of writing the Audit Plan the UK was due to exit from the EU on 31 March 2019. Brexit has been delayed with a revised date of 31 October 2019 so the risk has not materialised within the period covered by this report.</p> <p>The Council has established an EU Exit Strategic Board which meets to discuss Brexit related issues that could impact upon the Council, members of the board include Executive Director of City Management and Communities (chair), Director of Corporate Finance and Property, business continuity representatives and relevant service heads. The group reports to the Pan London Brexit group on a monthly basis.</p> <p>The Council has also established an monitors an EU Brexit risk register. We have reviewed the register and it covers the following expected areas :</p> <ul style="list-style-type: none"> <li>• Workforce</li> <li>• Citizens rights</li> <li>• Community cohesion</li> <li>• Economic risks</li> <li>• Supply Chains</li> <li>• Elections</li> <li>• IT</li> </ul> <p>Associated risks and opportunities are described and risk rated based on likelihood and impact resulting in an overall score and risk mitigations and actions to take forward. The register is regularly reviewed and updated by the EU Strategic Board. In addition, the Council is monitoring Performance Indicators for tracking Brexit Impacts in Westminster.</p> <p>The Council has set up an advice service helpline to assist EU nationals living in Westminster who are worried about their status in the run up to Brexit. The Council's website also provides helpful links to where residents and businesses can get the most up to date advice including government's official source for a wide-range of information for residents and businesses about the UK leaving the EU</p> <p>The Council has established arrangements to analyse and mitigate any potential risks/opportunities resulting from Brexit.</p> |

**Significant difficulties in undertaking our work**

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

**Significant matters discussed with management**

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

**Overall conclusion**

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix F.

# 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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix E.

## Audit and 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 following non-audit services were identified which were charged from the beginning of the financial year as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

| Service   | £      | Threats   | Safeguards  |
|---|--------|---|---|
| <b>Audit related</b>                            |        |   |   |
| Certification of Housing capital receipts grant | TBC    | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £3,000 in comparison to the total fee for the audit of £143,004 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.  |
| Certification of Teachers' Pension return       | TBC    | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £3,500 in comparison to the total fee for the audit of £143,004 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.  |
| Certification of Housing Benefits claim         | TBC    | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work for 2017/18 was £22,410 in comparison to the total fee for the audit of £143,004 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level. |
| <b>Non-audit related</b>                        |        |   |   |
| CFO Insights subscription                       | 12,500 | Self-Interest (because this is a recurring fee) | The level of this recurring fee taken on its own is not considered a significant threat to independence as the was £12,500 in comparison to the total fee for the audit of £143,004 and in particular relative to Grant Thornton UK LLPs turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors mitigate the perceived self-interest threat to an acceptable level.                               |

These services are consistent with the group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Performance Committee. None of the services provided are subject to contingent fees.

## Work outstanding

We have substantially completed our audit of your financial statements, with the exception of the following outstanding items:

- receipt and review of supporting information for a sample of items from the Council's capital grant revenues;
- receipt and review of supporting information for a sample of payments made in April and May 2019 to gain assurance that there is no risk of misstatement through cut-off of expenditure;
- review and challenge of updated workings to support the Council's revaluation movements for land and buildings to address issues found during our testing;
- review of the reasonableness of classification for a sample of the Council's reclassified investment and operational properties;
- review of the balances that the Council has disclosed relating to lease agreements;
- review and challenge of significant movements in earmarked reserves;
- review of the finalised version of PWC's report on the LGPS actuary;
- consideration of the potential impact of the McCloud judgement, an emerging national issue, which has been raised by the NAO;
- review of updated cash flow statement for the Council;
- review of updated EFA and related disclosures for the Council;
- internal consistency checks of the disclosures in the updated financial statements;
- review of any journals posted to the general ledger since the draft financial statements were produced;
- review of the updated financial statements to ensure that expected adjustments have been processed;
- final quality checks and senior personnel reviews of the audit work performed;
- receipt of a signed management representation letter; and
- review of the final, approved set of financial statements.

# Action plan

**Priority**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

We have identified recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019/20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

| Priority  | Issue and risk  | Recommendations   |
|---|---|---|
| 1<br><br><b>(High)</b>     | As discussed on page 9, at the time of writing our report, the Council are unable to fully reconcile the cash position per the General Ledger to their bank balance.<br><br>There is a risk that unreconciled items are masking other issues in the Council's financial records.  | We recommend that the Council look to fully reconcile their cash position as soon as possible.<br><br><b>Management response:</b><br>The new income manager system is complex and needed to be embedded post the go-live of the financial system. This work is on-going and a full time team is working on it. In the new year the process and system controls will be embedded and the bank account will be reconciled on a regular basis with appropriate review.   |
| 2<br><br><b>(High)</b>     | The Council did not provide the valuer with details of enhancements made to their properties during the year. This information may impact on the output of the valuation exercise.<br><br>The Council has agreed to amend the financial statements to address this issue for the 2018/19 year.  | The valuer should be provided with all information necessary to perform their duty, including information on enhancements and potential impairments to assets, and any other changes in-year.<br><br><b>Management response:</b><br>This will be formally incorporated into the process with the valuer next year.  |
| 3<br><br><b>(Medium)</b>   | Following challenge from the audit team, the Council's valuer has provided a valuation for their HRA properties at 31 March 2019 that is £85m lower than the valuation provided at 1 April 2018 that was used as the basis of the value presented in the draft financial statements.<br><br>This is a material difference in the value of the Council's HRA properties, and the financial statements have been amended. | Management are required to assure themselves that their financial statements are free from material misstatement each financial year.<br><br>We recommend that higher scrutiny be applied each year when considering the valuation of the Council's land and buildings.<br><br><b>Management response:</b><br>This arose because of a late notification of the need to change the date of the valuation from 1 April 2018 to 31 March 2019. This was notified too late for the change to be made in time for the production of accounts. Naturally this will not reoccur in 2019/20 but was unavoidable for 2018/19. We do not believe that "higher scrutiny" is required – this is a timing issue and the amount is fully reflected in the accounts. |
| 4<br><br><b>(Medium)</b> | During our work on the Council's revaluations, we noted that the Council had omitted the revaluations of some assets when processing valuation information provided by the valuer.<br><br>The Council has agreed to amend the financial statements for this for the 2018/19 year.   | We recommend that a reconciliation is performed between the valuer's report, the Fixed Asset Register, and the General Ledger once valuations have been processed, to ensure that valuations have been input accurately.<br><br><b>Management response:</b><br>Agreed.  |

# Action plan

**Priority**

- High – Significant effect on control system
- Medium – Effect on control system
- Low – Best practice

| Priority   | Issue and risk   | Recommendations   |
|--|--|---|
| 5<br><br>(Medium) | <p>The Council experienced delays closing the general ledger and preparing the financial statements this year, due to the new financial system.</p> <p>The knock-on effect of this, due to the very tight closedown timetable set, was that the time available for quality control processes and checks was limited. This has led to a significantly higher level of audit queries and issues than we would anticipate.</p> <p>The first draft of the Council's financial statements presented for audit had a number of internal consistency issues and casting errors. These errors are not indicative of issues with the Council's financial records.</p> | <p>We recommend that management reconsider their close-down timetable, to allow for contingency and for further quality control checks to be performed.</p> <p>We recommend that in future years, the draft financial statements are checked for grammatical errors, casting errors, and internal consistency before being presented for audit.</p> <p><b>Management response:</b></p> <p>The officer team sets high standards for its QA processes and these are rigorously followed. These will be reviewed again along with timelines for 2019/20.</p> |
| 6<br><br>(Low)    | <p>During our work on the movement in the Council's HRA balances, we noted that the Council estimate the value of the land element of the HRA for the purposes of depreciation. The estimate used has remained the same for a number of years, with no formal reassessment.</p> <p>Although we are satisfied that this is not a material issue, there is a risk that the estimate used is no longer the most appropriate, and this would impact on the depreciation charged each year, and the processing of any revaluations.</p>   | <p>We recommend that formal consideration is given each year to the appropriateness of the split of HRA land and buildings elements for the purposes of depreciation charges.</p> <p><b>Management response:</b></p> <p>Officers do not see this as a significant issue but we will consider this as part of next year's timetable.</p>   |

# Follow up of prior year recommendations

**Assessment**  
 ✓ Action completed  
 WIP implementation in progress  
 X Not yet addressed

We identified the following issues in the audit of Westminster City Council's 2017/18 financial statements, which resulted in recommendations being reported in our 2017/18 Audit Findings report. We have followed up on the implementation of our recommendations, as detailed below:

| Priority   | Assessment | Issue and risk previously communicated  | Update on actions taken to address the issue   |
|--|------------|---|--|
| 1<br><br>(Medium)   | WIP        | <p>In previous years' audits, our sample testing of creditor balances and payments post year end identified items that did not follow guidance.</p> <p>Although we were satisfied that this was not indicative of a material misstatement in the financial statements, we recommended that all budget managers follow the Council's accruals guidance when preparing the year end position.</p> | <p>The Council inform us that they performed a full review of the outturn against accruals made as at 31 March 2018 as part of their preparations for closing down the 2018/19 general ledger and to resolve the issues that were identified in previous audits.</p> <p>The Council have provided us with a summary of this exercise, which was a review of all income and expenditure accruals, comparing them to the actual outcome. Accruals guidance notes were updated following the review, and were issued to all relevant staff to improve the process.</p> <p>We note that the Council did not consider the completeness of accruals during this review, or the gross impact of any differences on the Council's income and expenditure. We recommend that this is given consideration in future.</p> <p>Our work on the cut-off of revenues and expenditures at the end of the 2018/19 financial year is still in progress.</p> <p>Subject to the completion of this work, we are satisfied that these issues are not indicative of a material error in the financial statements and that management have made progress in addressing the issue, however we plan to keep this recommendation under review.</p> |
| 2<br><br>(Medium)   | ✓          | <p>Audit work on the valuation of investment properties in the prior year identified that a small number were included in the financial statements at the wrong value due to differences between versions of the valuer's reports.</p> <p>Management should ensure that effective version controls are in place for all key inputs into the financial reporting process.</p>                    | <p>Our work has confirmed that there were no similar issues arising relating to valuation reports in 2018/19.</p>  |
| 3<br><br>(Medium) | ✓          | <p>Testing in the prior year identified that there were balance sheet codes which contained balances that had not moved for a number of years. There is a risk that these balances are no longer valid.</p> <p>A review of all such balances should be performed to ensure that these are still relevant in advance of the Council changing general ledger system.</p>                          | <p>As part of mid-year hard closes and the final closure of accounts each and every code on the balance sheet is reviewed, ensuring that all the balances are still valid. In addition, each movement is reviewed to ensure that it can be explained.</p> <p>No similar issues have been noted during our work during 2018/19.</p>   |

# Follow up of prior year recommendations

**Assessment**  
 ✓ Action completed  
 WIP implementation in progress  
 X Not yet addressed

| Priority   | Assessment | Issue and risk previously communicated  | Update on actions taken to address the issue   |
|--|------------|---|--|
| 4<br><br>(Low)                      | ✓          | <p>Audit work performed on capital additions in the 2017/18 financial year identified that approximately £3,780k was over-accrued in previous years.</p> <p>These accruals were de-recognised in 2017/18.</p> <p>Periodic reviews of capital accruals should be performed in order to identify those that are no longer necessary.</p>                            | <p>All the accruals that are raised in-year are automatically reversed in the following year by the Council's new ledger. This ensures that accruals that are no longer necessary are reversed out, and covers both capital and revenue accruals.</p>  |
| 5<br><br>(Medium)<br>Previously Low | X          | <p>A number of investment properties were reclassified as operational property, plant and equipment during the 2017/18 valuation process. Our testing identified one further asset that was classified incorrectly.</p> <p>A review of investment properties should be performed each year to ensure that all investment properties are correctly classified.</p> | <p>The Council have performed a full review of land and buildings to ensure that items are correctly classified as investments or operational property. This has resulted in transfers of assets during the 2018/19 year.</p> <p>We are still completing our work on the reclassifications performed by the Council, however we have found further issues with the classification of operational and investment properties in 2018/19.</p> <p>We recommend that the Council revisit this over the coming year.</p> |

# Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

## Impact of adjusted misstatements – Council accounts

All adjusted misstatements are set out in detail below along with the impact on the Council's key statements and the reported net expenditure for the year ending 31 March 2019.

| Detail   | Comprehensive Income and<br>Expenditure Statement<br>£'000 | Balance Sheet<br>£'000 | Reserves<br>£'000 |
|--|--|------------------------|-------------------|
| <b>1 Valuation of the Council's HRA Dwellings</b>  |  |                        |                   |
| Our audit work identified the potential for a material movement in the valuation of the Council's HRA properties between the valuation date of 1 April 2018 and the balance sheet date.  |  |                        |                   |
| The Council's valuer confirmed that, based on available indices, a valuation at 31 March 2019 would have been approximately £85.6m lower than that on 1 April 2018. The Council have therefore adjusted the financial statements to include this lower valuation to ensure that the balance sheet is not materially misstated at year-end, as follows: |  |                        |                   |
| Dr Accumulated Depreciation  |  | 17,770                 |                   |
| Dr Revaluation Reserve   |  | (85,611)               | 67,841            |
| Cr Gross Book Value of HRA Dwellings   |  |                        |                   |
| <b>2 Valuations provided by the Valuer but not processed</b>   |  |                        |                   |
| During our work on the Council's revaluations of land and buildings it was noted that the valuations provided in the valuer's report, had not been properly processed through the Council's Fixed Asset Register and General Ledger.   |  |                        |                   |
| We are still reviewing the Council's proposed adjustment to correct this.  |  |                        |                   |
| Our work to review the adjustment proposed by the Council identified further valuations that had not been processed. The Council do not plan to amend for these further adjustments, which are included in our schedule of unadjusted misstatements.   |  |                        |                   |
|  | TBC  | TBC                    | TBC               |

# Audit Adjustments

## Impact of adjusted misstatements – Council accounts (continued)

| Detail  | Comprehensive Income<br>and Expenditure Statement<br>£'000 | Balance Sheet<br>£'000 | Reserves<br>£'000 |
|---|--|------------------------|-------------------|
| <b>3 Enhancements to assets subsequently revalued</b>   |  |                        |                   |
| <p>During our work on the Council's revaluations during 2018/19, we noted that the Council had not incorporated in-year additions and enhancements in its calculations when determining the gains and losses on revaluation of its assets.</p> <p>For those assets that were subject to desktop valuations, the additions totalled £7,494k. The valuer was not informed of these enhancements, and was therefore unable to determine whether there would be any impact on the value reported. Management's view is that retaining the value of these enhancements in addition to the desktop revaluation exercise is the fairest reflection of the values of those assets. We do not consider this treatment to be inappropriate.</p> <p>For those assets that were subject to a full, formal valuation process at 31 March 2019, enhancements totalled £46,330k, and will have been incorporated into the valuation provided by the Council's Valuer. These enhancements are therefore double-counted in the total value of the Council's assets.</p> <p>The Council have agreed to amend for this as follows:</p> |  |                        |                   |
| Dr Revaluation Reserve  |  |                        | 46,330            |
| Cr Gross Book Value of General Fund Land and Buildings  |  | (46,330)               |                   |
| <b>4 Pension scheme net liability</b>   |  |                        |                   |
| <p>The Council's pension net liability for Westminster City Council and the London Pensions Fund Authority schemes was valued at £683,955k, based on information available at 28 February 2019. The actuary provided the Council with an updated IAS19 report on 11 April 2019, which led to the following correction being made to the primary statements:</p>   |  |                        |                   |
| Dr Pension Fund liability   |  |                        | 3,355             |
| Cr Total Charge to Comprehensive Income and Expenditure Statement   | (3,355)  |                        |                   |
| <p>Amendments have also been made to Note 30 to reflect the updated figures provided for the movements on the Council's gross asset and liability balances.</p>   |  |                        |                   |

# Audit Adjustments

## Impact of adjusted misstatements – Council accounts (continued)

| Detail   | Comprehensive Income<br>and Expenditure Statement<br>£'000 | Balance Sheet<br>£'000 | Reserves<br>£'000 |
|--|--|------------------------|-------------------|
| <b>5 Bank reconciliation</b>   |  |                        |                   |
| Work performed on the Council's bank reconciliation has highlighted three issues.  |  |                        |                   |
| 1. Pension strain costs of £1,096k were incorrectly posted to VAT accounts in the general ledger in-year. This was identified by the Council and reversed out, but the transaction was never re-posted to the correct ledger codes. The Council have agreed to amend for this as follows:  |  |                        |                   |
| Dr Pension strain costs  | 1,096  |                        |                   |
| Cr Cash  |  | (1,096)                |                   |
| 2. An error in a system feeder file in January 2019 meant that NDR cash receipts recognised in the Council's Income Manager module were not transferred appropriately to the general ledger. We are satisfied that this issue had no impact on the Council's income and expenditure. The Council have agreed to amend for this as follows: |  |                        |                   |
| Dr Cash  |  | 5,125                  |                   |
| Cr NDR debtors   |  | (5,125)                |                   |
| <b>Total Adjustments</b>   | <b>TBC</b>   | <b>TBC</b>             | <b>TBC</b>        |

## Impact of adjusted misstatements – Prior year

| Detail  | Comprehensive Income<br>and Expenditure Statement<br>£'000 | Balance Sheet<br>£'000 | Reserves<br>£'000 |
|---|--|------------------------|-------------------|
| <b>1 Classification of investment properties</b>  |  |                        |                   |
| Our work on the Council's investment properties identified one property that was reclassified to investment from operational during 2018/19, but which should have been transferred during 2017/18. |  |                        |                   |
| We are still reviewing the Council's proposed adjustment to correct this.   |  |                        |                   |
|   | TBC  | TBC                    | TBC               |

# Audit Adjustments

## Misclassification and disclosure changes

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

| Disclosure Reference                            | Council or Group | Detail   | Adjustment Agreed |
|---|------------------|--|-------------------|
| Narrative Report                                | Council          | In the draft financial statements, the Narrative Report was inconsistent with other areas of the financial statements in a number of areas. The Council have agreed to amend for these issues.   | ✓                 |
| Prior Period Adjustments                        | Council          | The Council's prior period adjustments were not accurately reflected in a number of places throughout the draft financial statements, including each of the Council's four primary statements. These inconsistencies have been amended.  | ✓                 |
| Sources of Uncertainty (Note 3)                 | Council          | The Council did not include uncertainties relating to the valuation of its Dwellings in the disclosure in the draft accounts. This is a key estimate in the balance sheet and is subject to increased risk of material misstatement due to its size.   | ✓                 |
| Other Operating Income (Note 5)                 | Council          | Note 5 in the draft financial statements included £3,247k of income in gains on disposals that did not relate to the disposal of assets. This has been reclassified in the disclosure note. This adjustment has no impact on the Council's performance in the year.  | ✓                 |
| Expenditure and Funding Analysis (EFA – Note 8) | Council          | In the draft financial statements, the EFA was inconsistent with the Movement in Reserves Statement and its supporting notes. In addition, the EFA had not been prepared in line with the requirements of the Code of Practice on Local Authority Accounting. The Council is correcting these issues.                                    | ✓                 |
| Dedicated Schools Grant (DSG – Note 12)         | Council          | The Council's initial disclosure of the split of DSG between 'Central Expenditure' and 'Individual Schools Budget' was incorrect. This has been amended.   | ✓                 |
| Property, Plant and Equipment (Note 18)         | Council          | The draft financial statements did not include any information on the Council's accounting policy for assets that are split between operational and investment properties.   | ✓                 |
| Property, Plant and Equipment (Note 18)         | Council          | It was unclear in the draft financial statements how assets transferred between investment properties and operational properties reconciled between Note 18 and Note 20.   | ✓                 |
| Group Accounts                                  | Group            | The draft group financial statements did not include disclosure notes relating to the group's Property, Plant and Equipment, which are required by the Code of Practice on Local Authority Accounting as the group position is materially different to the Council as a single entity. The Council have agreed to add these disclosures. | ✓                 |
| Various   | Both             | A number of other minor changes have been made to disclosure notes and accounting policies throughout the financial statements to improve accuracy, clarity and user understanding.  | ✓                 |

# Audit Adjustments

## Misclassification and disclosure changes – prior year comparators

| Disclosure Reference              | Council or Group | Detail   | Adjustment Agreed |
|-----------------------------------|------------------|--|-------------------|
| Capital Commitments<br>(Note 18a) | Council          | During work performed on the current year capital commitments disclosure, we noted that commitments totalling £16,405k were omitted from the previous year's disclosure. This amendment has no impact on the primary statements. | ✓                 |

# Audit Adjustments

## Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2018/19 audit which have not been made within the final set of financial statements. The Audit and Performance Committee is required to approve management's proposed treatment of all items recorded within the table below:

| Detail  | Comprehensive Income<br>and Expenditure<br>Statement<br>£'000 | Balance<br>Sheet<br>£'000 | Reserves<br>£'000 | Reason for not<br>adjusting   |
|---|---|---------------------------|-------------------|---|
| <b>1 Reclassification of investment properties as operational properties</b>  |   |                           |                   |   |
| <p>The Council has reclassified assets from investment property to operational land and buildings during the year. We are satisfied that the accounting treatment at the point of reclassification is in line with the accounting standards. The effective date of change has been assumed to be 31 March 2019, and assets have been transferred from investment property at fair value at that date.</p> <p>However, as operational land and buildings, these assets should have been valued at current value at the balance sheet date, and so a subsequent valuation should have been performed.</p> <p>Whilst the total fair value of the investment properties reclassified is £4,429k and therefore we do not consider that the Council's land and buildings can be materially misstated, the difference between fair value and current value for these assets is unlikely to be trivial.</p> |   |                           |                   |   |
| <p>The Council are unable to quantify this error in order to adjust for it, as the assets were not valued in their existing use in 2018/19.</p> <p>The assets in question will form part of the Council's asset valuation programme from 2019/20.</p>   |   |                           |                   |   |
| <b>2 Valuations provided by the Valuer but not processed</b>  |   |                           |                   |   |
| <p>During our work on the Council's revaluations of land and buildings it was noted that the valuations provided in the valuer's report, had not been properly processed through the Council's Fixed Asset Register and General Ledger.</p> <p>The Council adjusted for the vast majority of this issue, but our work to review their proposed adjustment identified further valuations that had not been processed, as follows:</p>  |   |                           |                   |   |
| Dr Accumulated Depreciation General Fund Land and Buildings   |   | 1,069                     |                   | This difference is not material.  |
| Dr Accumulated Depreciation HRA Land and Buildings  |   | 516                       |                   |   |
| Dr Revaluation Reserve  |   |                           | 986               | This omission will be corrected as part of the revaluation exercise in 2019/20. |
| Dr Loss on Revaluation in Other Comprehensive Income  | 2,941   |                           |                   |   |
| Cr Gross Book Value of General Fund Land and Buildings  |   | (4,421)                   |                   |   |
| Cr Gross Book Value of HRA Land and Buildings   |   | (1,090)                   |                   |   |

# Fees

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

### Audit Fees

|                      | Proposed fee<br>£ | Final fee<br>£ |
|----------------------|-------------------|----------------|
| <b>Council Audit</b> | 143,004           | TBC            |

### Non Audit Fees

| Fees for other services  | Fees<br>£ |
|--|-----------|
| <b>Audit related services:</b>   | TBC       |
| <ul style="list-style-type: none"> <li>• Certification of Pooling of Housing Capital Receipts return</li> <li>• Certification of Teachers' Pensions return</li> <li>• Certification of Housing Benefits claim</li> </ul> |           |
| <b>Non-audit services:</b>   | 12,500    |
| <ul style="list-style-type: none"> <li>• CFO Insights subscription</li> </ul>  |           |

# Audit opinion

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

## Independent auditor's report to the members of Westminster City Council

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of Westminster City Council (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Group Comprehensive Income and Expenditure Statement, the Group Movement in Reserves Statement, the Group Balance Sheet, the Group Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement, and the notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2019 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the group and the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director – Finance and Resources' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Executive Director – Finance and Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report, other than the Authority and group financial statements, our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit.

# Audit opinion

We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

## Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Annual Accounts, the Member Preface, the Annual Governance Statement, the Written Statements and the Executive Director's Narrative Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

## Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

## Responsibilities of the Authority, the Executive Director – Finance and Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 33, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director – Finance and Resources. The Executive Director – Finance and Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for

being satisfied that they give a true and fair view, and for such internal control as the Executive Director – Finance and Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director – Finance and Resources is responsible for assessing the group's and the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Performance Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

## Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

## Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

### Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

### Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

# Audit opinion

## **Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively. We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## **Report on other legal and regulatory requirements- Delay in certification of completion of the audit**

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

## **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to any one other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.



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