



Audit and Performance Committee Report

Date:	31 October 2022
Classification:	General Release
Title:	2021/22 Annual Accounts
Wards Affected:	All
Fairer Westminster Summary	The accounts detail the Council's financial performance for 2021/22. Further detail regarding the Council's objectives and governance can be obtained in the Narrative Report and Annual Governance Statement
Financial Summary:	This report presents substantive audit completion of the Statement of Accounts and Pension Fund report for the Council for the financial year ended 31 March 2022 and the external auditor's reports
Report of:	Gerald Almeroth, Executive Director – Finance & Resources

1. Executive Summary

- 1.1 Since the Audit and Performance Committee reviewed the draft statement of accounts at its meeting on 21 July 2022, the Council's external auditors Grant Thornton UK LLP have performed their external audit of the Council and Pension Fund accounts.
- 1.2 The audit is substantively complete and is subject to ongoing audit quality review by the Engagement Lead. In addition, Grant Thornton's internal Quality control team will review the audit work documented on the audit file over the significant audit risks identified in the plan. This is a new stage in the audit process and will provide further audit quality assurance before final sign-off of the accounts.

- 1.3 The Council expects an unqualified opinion on its accounts by the November 2022 national audit sign-off deadline, but this timing is subject to the Department of Levelling Up, Housing and Communities (DLUHC) issuing a statutory override to Local Authority Capital Finance and Accounting Regulations to change reporting requirements on Infrastructure Assets. This is a technical accounting issue that does not impact the Council's "bottom line" but remains a national issue leading to significant delays to final opinions being issued. At the time of writing, this statutory override is expected to pass through Parliament in December 2022.
- 1.4 A further aspect of the audit, the Value for Money audit, is underway and is expected to conclude in December 2022. This report, plus the final External Audit Annual Findings Report (ISA requirement, to report to those charged with governance) will be presented to Audit and Performance Committee in January 2023.

2. Recommendations

- 2.1 That Audit and Performance Committee considers the interim findings outlined in Grant Thornton's Audit Progress Reports of both the Council's Statement of Accounts and Pension Fund report (Appendices 1 and 2);
- 2.2 That Audit and Performance Committee notes the key changes as set out in paragraph 5.2 of this report that will be reflected in the final set of accounts to be approved by the Committee at a later date;
- 2.3 That Audit and Performance Committee delegates authority to the Executive Director of Finance and Resources for any technical accounting adjustments to the accounts prior to final publication, taking into account materiality and any impact on the Council's financial outturn and that a final noting item taken to this Committee summarising said changes;
- 2.4 That Audit and Performance Committee delegates authority to the Executive Director of Finance and Resources to make any necessary technical accounting adjustments in respect of Infrastructure Assets accounting following the Parliamentary statutory override expected in December 2022;
- 2.5 That Audit and Performance Committee notes that the Value for Money assessment be approved by the Committee at a later date;

3. Background

- 3.1 The Accounts and Audit (Amendment) Regulations 2021 state that the draft accounts must be published by 31 July 2022.

- 3.2 The challenges facing the audit sector are well documented and continue to create a significant burden on both auditors and finance staff. The number of English authorities having their 2020/21 accounts signed off by the November 2021 deadline was just 9% and, due to the emerging Infrastructure Assets issue (see section 6 of this report), this figure could well be lower for the 2021/22 accounts.
- 3.3 In December 2021, DLUHC extended the audit completion date for the 2021/22 accounts to 30 November 2022 as part of a package of measures to support the improved timeliness of local audit.

4. Audit Progress to date

- 4.1 The Audit and Performance Committee approved the Council's draft accounts on 21 July 2022. The public inspection period covered 14 July to 24 August 2022, upon which no objections were made.
- 4.2 Since then, the Council's external auditor, Grant Thornton, has carried out a detailed audit of the accounts. The audit process is intended to ensure that there are no material misstatements in the accounts and the audit is directed towards forming and expressing an opinion about the financial statements. Where material misstatements are identified, corrections will be made to accounts before publication on the Council's website.
- 4.4 At the time of writing, the audit team has substantively completed their work. For the first time this year, following a recent review by the Financial Reporting Council, Grant Thornton has included an additional layer of internal quality assurance. Due to the infrastructure override Grant Thornton will not be able to issue an opinion until this is resolved. At this stage, external audit has not identified any matters from the audit work, which would result in a qualification of the audit opinion.
- 4.5 Grant Thornton has outlined in its reports that they will complete the Value for Money (VfM) assessment in December which does not affect this October position.
- 4.6 The audit of the Whole of Government will take place when HM Treasury issues its 2021/22 WGA guidance, which is not expected until December 2022. As there were no objections on this year's accounts, final certification can be issued once the VfM and WGA assurance is given.

5. Statement of Accounts

- 5.1 Grant Thornton have published their Audit Progress Reports (main accounts and pension fund) which can be seen in Appendices 1 and 2. Any findings that the auditors make will be reflected in an updated set of accounts.

5.2 Following the audit, the statement of accounts has remained largely unchanged from the July draft position. There have been some key changes identified which are now reflected in the updated accounts:

- **Collection Fund:** The Council has an annual collectable business rates liability of c£2.5bn, the largest in the country by far. Some of the rates payable are subject to appeal for which the authority must make an annual provision. The audit review has led to changes in the appeals provision. The provision is based on the “Check, Challenge and Appeal” system for business rates. On further analysis of the base data the provision was calculated on it was discovered that this excluded “Checks”. This has pushed the Council deeper into its business rates safety net position (i.e. DLUHC underwrites authorities that suffer losses greater than 7.5% of its budgeted baseline position) and therefore is owed a further £14.2m from the Government. This change represents 0.5% of total the annual £2.5bn business rates liability for Westminster and has been passed into earmarked reserves.
- **Pension Upfront Payment:**, A change in accounting treatment was required this year as the pension deficit payments over the last two years were deemed to relate to future benefits. Therefore, they should be transferred to the pension liability on the balance sheet and then amortised over the next 13 years. Where the Council had previously financed £22.7m as an expense in 2020/21 and 2021/22, this should be finance over 13 years. This has resulted in earmarked reserves increasing by £45m. This will be applied to the capital financing reserves to support the Council’s 15-year capital programme. The impact of this is a reduction in the Council’s pension fund liability which will be offset by an annual charge to revenue of £7.9m via the pension reserve.
- **Financial Instruments:** The 2020/21 debtors balance has been restated to include loans to the Council’s subsidiaries, Westminster Housing Investment Ltd and Westminster Community Homes. The loans were previously excluded as they were interpreted to be an interest in an entity within the group and disclosed elsewhere in the accounts. The CIPFA Code is not entirely clear about IFRS9 in respect of loans to group entities and was considered (and audited in 2020/21) outside the scope of IFRS9. It is now considered that interests refer to loans to group entities. They have now been disclosed as financial assets in the Financial Instrument note. The effect is to restate the 2020/21 financial asset position by £33.229m and adjust the draft 2021/22 position by £78.845m. There are purely technical accounting adjustments that do not impact the Council’s “bottom line”.

- 5.3 There are other non-material and presentational changes, including disclosure enhancements, to the accounts but none of these have an impact on the bottom-line position and will be reflected in the final set of audited accounts.

	31-Mar-21			31-Mar-22		
	Long term	Short term	Total	Long term	Short term	Total
Draft Accounts	56,728	82,261	138,989	53,189	101,162	154,351
Adjustments for IFRS 9:						
Westminster Community	8,222		8,222	7,283		7,283
Westminster Housing	24,916		24,916	71,562		71,562
Westminster Hub	91		91	0		0
	33,229	0	33,229	78,845	0	78,845
Post Audit Adjustments	89,957	82,261	172,218	132,034	101,162	233,196

Pension Fund report (Appendix 2)

- 5.4 The Pension Fund Audit Progress Report is outlined within Appendix 2. The Pension Report is also expected to receive an unqualified opinion.

6. Infrastructure Assets

- 6.1 There is a national on-going issue in local government accounting and audit related to infrastructure assets, in particular highways, where a challenge has arisen about how authorities have not been derecognising the asset value of highways that have been replaced.
- 6.2 This issue stems back to 1994 when the concept of Infrastructure Assets was introduced in Local Government accounting. At the time it was deemed too expensive for authorities to maintain accounting records of individual highways records and that this information would provide no substantial value to impact on the decisions which might be made on an operational basis.
- 6.3 This year, the Financial Reporting Council argued that authorities should remove historic spend for material assets when new spend is incurred, going back in some cases to when records began.
- 6.4 This has led to stasis across the audit sector as most authorities do not have records of capital expenditure on individual roads going back to 1994. In order to break this sector-wide impasse, it is expected that Government will issue a statutory override removing, through legislation, the need for authorities to restate their accounts on the basis of what was widely accepted accounting treatment over the decades.
- 6.5 It should be known that this is purely an accounting exercise with no bearing on the actual costs incurred for highways capital expenditure. As such there will be no "bottom line" impact on the Council. However, it is recommended that the s151 officer be given delegated authority to sign off the accounts once this issue is resolved, which is expected in December 2022.

7. Conclusion

- 7.1 Grant Thornton is expecting to issue unqualified opinions on both the main accounts and pension fund, subject to the infrastructure asset override and the conclusion of the external audit, including the points noted in the Audit Progress report presented to Committee.
- 7.2 Final certification will be given once the Value for Money assessment and Whole of Government Accounts are audited.

If you have any queries about this Report or wish to inspect any of the Background Papers, please contact:

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BACKGROUND PAPERS:

Appendix 1: Audit Progress Report (Council) 2021/22

Appendix 2: Audit Progress Report (Pensions) 2021/22