



*cutting through complexity*

# Report to those charged with governance (ISA 260) 2014/15

London Borough of Brent

8 September 2015

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website ([www.psaa.co.uk](http://www.psaa.co.uk)).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Phil Johnstone, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to [trevor.rees@kpmg.co.uk](mailto:trevor.rees@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing [generalenquiries@psaa.co.uk](mailto:generalenquiries@psaa.co.uk), by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

## This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for both the Authority and its pension fund; and
- our assessment of the Authority's arrangements to secure value for money.

## Scope of this report

This report summarises the key findings arising from:

- our audit work at London Borough of Brent ('the Authority') in relation to the Authority's 2014/15 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- the work to support our 2014/15 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

## Financial statements

Our *External Audit Plan 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during June and July 2015. However reference is also made where relevant to other stages of our audit.

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

## VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas

## Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

## Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

**This table summarises the headline messages for the Authority and the Fund. Sections three and four of this report provide further details on each area.**

<b>Proposed audit opinion</b>	<p>We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.</p> <p>We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.</p>
<b>Audit adjustments and recommendations</b>	<p>Our audit has identified four significant audit adjustments. The impact of these adjustments is to increase the net worth of the Authority as at 31 March 2015 by £4.1 million and related to:</p> <ul style="list-style-type: none"> <li>▪ Adjustment made to estimates for the year end school bank position of £4.6 million;</li> <li>▪ Reallocation of reversals of valuation losses of £74.3 million on Council dwellings between HRA expenditure and income;</li> <li>▪ Decrease in valuation of other Land and Buildings within Property, Plant and Equipment by £1.2 million due to an incorrect revaluation calculation; and</li> <li>▪ Adjustment to deferred income of £5.6 million as a result of the PFI contract variation.</li> </ul> <p>We have included more details on the above audit adjustments at Appendix 3. All of these have been adjusted by the Authority. We have raised three recommendations in relation to our work which are summarised in Appendix 1.</p> <p>There is one potential audit difference of £1.3 million relating the Pension Fund that the Authority is investigating – see Appendix 3.</p>
<b>Key financial statements audit risks</b>	<p>We review risks to the financial statements on an ongoing basis. In addition to the two standard audits risk relating to management over ride of controls and fraudulent revenue recognition, we identified three additional key financial statements audit risks in our 2014/15 External audit plan issued in March 2015.</p> <ul style="list-style-type: none"> <li>▪ Accounting for Local Authority Maintained Schools;</li> <li>▪ The implementation of the One Oracle R12 system; and</li> <li>▪ Local Government Pension Scheme reform which related to the Pension Fund audit.</li> </ul> <p>We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in Section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>
<b>Accounts production and audit process</b>	<p>The Authority has good processes in place for the production of the accounts and supporting working papers. The accounts were prepared in line with the timetable. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>A future challenge will be to bring the timetable forwards to meet the deadline of 31 May for the 2017/18 financial statements.</p>

<b>Completion</b>	<p>At the date of this report our audit of the financial statements is substantially complete, subject to completion of the following areas:</p> <ul style="list-style-type: none"> <li>■ Obtaining outstanding bank and investment confirmations;</li> <li>■ Finalising final queries on PFI, creditors and expenditure;</li> <li>■ Pension Fund investments;</li> <li>■ Completion of our work on the Whole of Government Accounting; and</li> <li>■ Final overall review and closing processes.</li> </ul> <p>Before we can issue our opinion we require a signed management representation letter which covers the financial statements of both the Authority and the Pension Fund.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.</p>
<b>VFM conclusion and risk areas</b>	<p>We did not identify any significant VFM risks specific to the Authority in our 2014/15 External audit plan. We have substantially completed our VFM work programme and there are no matters of any significance arising as result of our audit work.</p> <p>We anticipate that we will conclude that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2015.</p>
<b>Audit Certificate</b>	<p>We are in the process of completing the work on the Whole of Government Accounts which we anticipate completing prior to the Audit Committee.</p> <p>We have received three queries from local government electors which we have responded to but in order to allow them time to consider our response, we don't anticipate issuing our audit certificate until October 2015. This is subject to the electors either not formally objecting or raising additional questions supported by appropriate evidence.</p>

**Our audit identified four audit adjustments. The impact of these adjustments is to decrease the net worth of the Authority as at 31 March 2015 by £4.1 million**

### Proposed audit opinion

Subject to all outstanding queries being resolved, we anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 16 September 2015.

### Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £20 million. Audit differences below £1 million are not considered significant.

Our audit identified four significant audit differences, which we set out in Appendix 3. These have been adjusted in the final version of the financial statements.

In addition, we identified a small number of minor differences and presentational adjustments. The Authority has adjusted for these.

The table on the right illustrates the total impact of audit differences on the Authority's balance sheet as at 31 March 2015. There was no impact on the General Fund, Housing Revenue Account or Collection Fund balances.

There is one potential audit difference of £1.3 million on the Pension Fund investments which the Authority is investigating. This has not been adjusted for.

Balance Sheet as at 31 March 2015 (£'000)			
£m	Pre-audit	Post-audit	Ref (App.3)*
Property, plant and equipment	1,472,565	1,471,397	4
Other long term assets	63,579	63,579	
Current assets	246,198	243,731	1
Current liabilities	(112,341)	(110,223)	1
Long term liabilities	(1,215,572)	(1,209,972)	3
<b>Net worth</b>	<b>454,429</b>	<b>458,512</b>	
Usable reserves	319,242	318,893	1
Unusable reserves	135,187	139,619	3, 4
<b>Total reserves</b>	<b>454,429</b>	<b>458,512</b>	-

\* The impact of the fourth audit difference was only within HRA cost of services within the Comprehensive Income and Expenditure Account.

**We have identified no issues in the course of the audit of the Pension Fund that are considered to be material.**

**We anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements, as contained both in the Authority's Statement of Accounts and the Pension Fund Annual Report by 30 September 2015.**

**The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.**

### **Pension fund audit**

Our audit of the Fund did not identify any significant audit differences.

For the audit of the Fund we used a lower materiality level of £10 million. Audit differences below £500,000 are not considered significant.

Subject to all outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 16 September 2015.

### **Annual Governance Statement**

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

### **Pension Fund Annual Report**



We have reviewed the *Pension Fund Annual Report and Accounts* and confirmed that:

We anticipate issuing an unqualified opinion on the *Pension Fund Annual Report and Accounts* at the same time as our opinion on the Statement of Accounts.

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.


In our External Audit Plan 2014/15, we identified the significant risks affecting the Authority and the Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work. The table below sets out our findings for each of these risks.

Significant audit risk	Issue	Findings
 <p><i>Risk impacts Authority only</i></p>	<p>LAAP Bulletin 101 <i>Accounting for School Assets used by Local Authority Maintained Schools</i> issued in December 2014 has been published to assist practitioners with the application of the Code in this respect. The challenges relate to school assets owned by third parties such as church bodies and made available to school governing bodies under a variety of arrangements. This includes assets used by Voluntary-Aided (VA) and Voluntary-Controlled (VC) Schools as well as Foundation Schools.</p> <p>Authorities will need to review the agreements under which assets are used by VA/VC and Foundation schools and apply the relevant tests of control in the case of assets made available free of charge, or risks and rewards of ownership in the case of assets made available under leases. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.</p>	<p>We have confirmed that the Authority has undertaken an exercise to review all schools in the borough and checked that they have been accounted in line with the latest guidance.</p> <p>The Authority identified four foundation schools and confirmed that either the legal title of the land is held by the Authority or the school but where the Authority retains substantive rights over the land.</p> <p>In line with the guidance the Authority made a prior period adjustment and brought £17.9 million of assets onto the balance sheet. We reviewed the process the Authority had followed and tested the four schools which were brought onto the balance sheet and a sample of those that remained off balance sheet.</p> <p>We are satisfied with the accounting treatment and have no matters which we wish to report to you in this regard.</p>
 <p><i>Risk impacts Pension Fund</i></p>	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the errors would cumulative over future years.</p>	<p>We have tested a sample of 15 new payments in the year to confirm that the changes in the benefits payable have been correctly applied.</p> <p>Our testing in this area found that the correct rates had been applied to new pensioners and we have not identified any matters to bring to your attention.</p>





We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus.

This section sets out our detailed findings on those risks.

Significant audit risk	Issue	Findings
 <p>New finance system</p>	<p>The Authority, alongside five other London boroughs, upgraded its finance system in August 2014 to One Oracle (R12).</p> <p>The new system incorporates the general ledger, accounts payable, accounts receivable and some elements of treasury management. There is a risk that data migrated to the new system is inaccurate either through data omissions, duplications or unintentional modification. An increase risk will also be present in the period immediately following implementation of the new system whilst changes to process imbed and the systems users become familiar with it.</p>	<p>We have reviewed the processes in place to ensure the completeness and accuracy of the data transferred to the new system.</p> <p>Our assessment of the controls in place within the Authority and at the implementation partner organisations has found them to be robust.</p> <p>The Authority ran several dry runs of the data transfer to ensure it was accurately transferred. We substantively tested the transfer of data to ensure that the information held within the new system is consistent with its predecessor.</p> <p>To ensure staff were adequately trained, Oracle champions were set up throughout the organisation and workshops held within departments. User guides and examples of how to complete tasks were added to the intranet to assist staff.</p> <p>We completed a review of the Finance Service Centre at the request of the Authority. In our report we made a number of recommendations relating to the controls around One Oracle (R12) to strengthen the overall operation of the system. Management have responded positively to this review and already a number of recommendations have been implemented with good progress on the others.</p>

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition. The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Area of risk	Issue
 <p>Management override of control</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
 <p>Fraudulent revenue recognition</p>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

The Authority has a well established and sound accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

### Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
<b>Accounting practices and financial reporting</b>	The Authority continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
<b>Completeness of draft accounts</b>	The Authority prepared a complete set of draft accounts which were submitted to the Audit Committee on 23 June 2015 in line with the timetable.
<b>Quality of supporting working papers</b>	We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 8 June 2015. The main working papers were available for the start of the on site visit on 29 June 2015. The quality of the working papers were of a good standard.
<b>Response to audit queries</b>	Officers resolved audit queries in a timely manner.
<b>Group audit</b>	To gain assurance over the Authority's group accounts, we placed reliance on work completed by PWC on the financial statements of Brent Housing Partnership Limited  There are no specific matters to report pertaining to the group audit.

Element	Commentary
<b>Pension Fund Audit</b>	The audit of the Pension Fund was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

### Conclusion

The Authority brought forward the timetable for preparing its financial statements in anticipation of reduced regulatory deadlines in future years during a major reorganisation in the finance department and managed to reduce the time taken to produce the draft accounts by a week. The Council will need to reduce this further to meet future deadlines. The draft accounts were prepared to a good standard

### Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority reviewed both recommendations and decided, in light of the values involved for this year, that it would be reasonable to continue with the approaches adopted last year but that this would be kept under review in future years. This approach taken and the amounts included in the financial statements in relation to the recommendations appears reasonable to us for this year.

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

**Before we can issue our opinion we require a signed management representation letter from you.**

**Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.**

### Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of the London Borough of Brent and London Borough of Brent Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and London Borough of Brent and London Borough of Brent Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity with the minor exception that is reported in Appendix relating to tax work which commenced prior to our appointment as external auditors.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

### Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Finance Officer for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested specific management representations on there being no other contract variations to the Private Finance Initiative (PFI) schemes in addition to one provided.

### Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial

statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

We wish to draw your attention to our separate report on the Finance Service Centre we issued in September 2015 which is also being presented to the Audit Committee meeting on 16 September 2015. We made a number of recommendations in this report to address control deficiencies. Management have accepted these recommendations and responded positively to address them.

**Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.**

**We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.**

#### Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

#### Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

#### Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓



## Appendix 1: Key issues and recommendations

We have given all recommendations a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations			
<b>1</b> <b>Priority one:</b> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.		<b>2</b> <b>Priority two:</b> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	
		<b>3</b> <b>Priority three:</b> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.	
No	Risk	Issue and recommendation	Management response / responsible officer / due date
1	<b>1</b>	<b>Finance Service Centre</b> The Authority requested that we complete a detailed review of the Finance Service Centre in addition to our statutory audit. We completed this work in June 2015 and issued a report to the Audit Committee in September 2015 with a number of recommendations which management accepted. The recommendations made in our Finance Service Centre review should be fully implemented as agreed in the action plan.	The Authority will implement the recommendations made in the Finance Service Centre Review, in line with the agreed action plan  Operational Director – Finance  Due date – as per the due date agreed for each recommendation in the action plan (August 15 to March 2016).
2	<b>3</b>	<b>School year end estimates</b> To assist the year end closedown process, estimates were used for school expenditure for the last two months of the year. The Authority completed a review of the year end position and identified that the bank position was approximately £4.6 million different to the estimated position. This was adjusted during the audit. The Authority should revisit the basis of estimates being made to help ensure the year end out turn is accurate.	The Authority will review the basis of estimation used for closing schools accounts for 2014/15 with a view to improve the process for 2015/16. Operational Director – Finance March 2016

## Appendix 1: Key issues and recommendations

No	Risk	Issue and recommendation	Management response / responsible officer / due date
3	3	<p><b>Fixed Asset values</b></p> <p>The local government SORP requires authorities to revalue assets on a “not more than every five years basis”. The Authority correctly applies this through completing a valuation of 20% of non-housing assets per year but is also required to confirm that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.</p> <p>In addition to the five yearly cycle, the Authority revalued all assets where capital spend of greater than £250,000 had been incurred in line with the Authority’s approach to ensure that the values of these assets were still materially correct. The Authority’s valuer also confirmed that he was satisfied that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.</p> <p>As the use of part of the Civic Centre is changing with more space being commercially let, it may be more appropriate for properties such as this to be revalued more frequently than every five years, with interim desktop valuations undertaken on the higher value assets. These valuations could be completed prior to December each year to help streamline this element of the accounts production process in future period.</p>	<p>The Civic Centre valuation will be reviewed next year, the appropriate term for revaluations will be considered as part of this.</p> <p>Aside from the commercial units of the Civic Centre, the Authority has very little commercial property as shown by the value of Investment Property. Variations in this value are not expected to make a material difference to the reader of the accounts.</p> <p>Surplus assets will be revalued next year as part of the introduction of IFRS 13.</p> <p>Operational Director – Finance March 2016</p>

The Authority has implemented all of the recommendations in our *ISA 260 Report 2013/14*.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2013/14* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	2
Implemented in year or superseded	2
Remain outstanding	-

No	Risk	Issue and recommendation	Officer responsible and due date	Status as at 7 September 2015
1	3	<p><b>Revaluation of Council dwellings additions</b></p> <p>The Authority has assumed the amount spent on capital works on Council dwellings increases the market value by a similar amount (after taking account of the Social Housing Discount). Our experience is that the market value of a dwelling increases less than the amount spent on capital works.</p> <p><b>Recommendation</b></p> <p>We recommend the Authority's surveyor reviews the amount spent and calculates the increase in market value of Council dwellings as a result of this as part of the closedown process for 2014-15</p>	Operational Director – Finance March 2015	<p>The Authority decided that given there was only £2.1 million of additions to Council dwellings in 2014/15, that any adjustment would be immaterial to the value of Council dwellings and that it would not be cost effective to carry out the exercise this year.</p> <p>The approach though will be considered in future years based on the value of expenditure but the full five year valuation is due in April 2016 that will revalue all dwellings.</p> <p>This approach seems reasonable to us.</p>
2	3	<p><b>Fixed Asset Register</b></p> <p>The Authority used a professional valuer to value the new Civic Centre. Valuations were allocated to the various components of the buildings, all of which had different estimated useful lives. However, the Civic Centre was included in the fixed asset register as one item and is being depreciated over 42 years.</p> <p><b>Recommendation</b></p> <p>The components of the Civic Centre should be separately included in the fixed asset register and depreciated over their respective estimated useful lives.</p>	Operational Director – Finance March 2015	<p>The Authority reviewed the differences in the two approaches and decided that as there was less than £150,000 difference between the approaches, they would continue to use the current approach.</p> <p>This approach will be reviewed as part of the Civic Centre revaluation in 2015/16.</p> <p>This approach seems reasonable to us.</p>



## Appendix 3: Audit differences

**This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.**

**We are reporting all audit differences over £1 million.**

**These differences have been adjusted for by the Authority.**

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

### Corrected audit differences

The following table sets out the significant audit differences identified by our audit of London Borough of Brent's financial statements for the year ended 31 March 2015. These have been adjusted by the Authority and we are completing our final review of the revised financial statements to confirm this.

No.	Impact					Basis of audit difference
	Income and Expenditure Statement	Movement in Reserves Statement	Assets	Liabilities	Reserves	
1	Dr Expenditure £0.3 million	Cr MIRs £0.3 million	Dr Debtor £2.3 million Cr Bank £4.7 million	Dr Creditors £2.1 million	Dr School Balances £0.3 million	Year end school balances were based upon estimates – adjustment to correct difference between estimate and actual
2	Dr HRA Expenditure £74.4 million Cr HRA income £74.4 million					Gains on reversals of valuation losses now being shown as income to be consistent with prior year.
3	Cr Income £5.6 million	Dr MIRS £5.6 million		Dr Deferred income £5.6 million	Cr Capital Adjusting Account £5.6 million	Reduction in deferred income to reflect change in PFI contract and provision of £5.6 million made.

## Appendix 3: Audit differences (Continued)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit adjustments over £1 million.

These differences have been adjusted for by the Authority.

There is one potential audit difference on the Pension Fund that the Authority is investigating.

### Corrected audit adjustments (continued)

No.	Income and Expenditure Statement	Movement in Reserves Statement	Impact			Basis of audit difference
			Assets	Liabilities	Reserves	
4	Dr Surplus on revaluation of PPE £1.2 million	Cr MIRs £1.2 million	Cr PPE £1.2 million		Dr Revaluation Reserve £1.2 million	Incorrect revaluation calculation
	<b>Cr £4.1 million</b>	<b>Dr £4.1 million</b>	<b>Cr £3.6 million</b>	<b>Dr £7.7 million</b>	<b>Cr 4.1 million</b>	<b>Total impact of adjustments</b>

In addition, the group accounts were adjusted for the above differences as a well as for changes in the BHP audited accounts, the most notable being provisions decreasing by £1.6 million, creditors increasing by £1.4 million and reserves increasing by £0.2 million.

### Pension fund – potential audit difference

We identified a potential audit difference within investments in the Pension Fund Accounts that the Authority is currently investigating. The value involved is that investments may be overstated by £1.3 million but given the uncertainty, no adjustment has been made.

**The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.**

**We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.**

### Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

*"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."*

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

### General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealing with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealing and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

### Disclosure of action concerning tax engagement

KPMG member firms and KPMG professionals are required to comply with independence standards that meet or exceed those set out in the IESBA Code of Ethics. In addition, the UK firm and our professionals are also required to comply with the requirements of the APB Ethical Standards. We also adhere to the Public Sector Audit Appointment's (PSAA) specific requirements regarding non-audit services.

These professional standards require that where the firm has determined that a breach of an audit independence standard has occurred, we discuss this and the actions we have taken or propose to take with you as soon as possible, communicate with you in writing all matters discussed and obtain your concurrence that action can be, or has been, taken to satisfactorily address the issue. This section of the report summarises such an instance requiring action.

In October 2010 the Authority engaged KPMG to provide services to assist you with the recovery of VAT in respect of sports services. The fee agreed for these services was a fixed fee of £500 and a contingent fee of 20% of any amounts recovered from HMRC if the claim was ultimately successful, plus a contribution payment towards the lead case capped at £5,000. £500 fixed fee was billed in July 2013. From August 2012, KPMG LLP was appointed as auditor of the 2013-14 year of account and subsequent financial years.

Prior to 2010, the APB Ethical Standards did not prohibit such contingent fee arrangements, however in 2010 the standards were changed and paragraph 95 of APB Ethical Standard Number 5 now provides that an audit firm cannot provide services on a wholly or partly contingent basis where the outcome of those services is dependent upon the proposed application of tax law which is uncertain or has not been established. As the tax law applying to the subject matter of this engagement was and remains uncertain, following KPMG LLP's appointment as auditor the fee basis should have been revised to remove the contingent element in order to comply with this requirement. Action was therefore required to ensure compliance with the ethical standards. In 2014 a new fee based on the time cost incurred was agreed to replace the contingent fee. A variation to the engagement with fees based on time cost was issued in September 2014 and the Authority billed £30,000 with a maximum further fee based on costs of £10,000. PSAA is fully aware of this position and in line with its usual rules on the acceptance of non-audit work. We will not be seeking its approval for this fee because it is below the de-minimis level for approval.

This position was identified as our firm undertook a special exercise to ensure that any grandfathered tax contingent fee arrangements that were entered into with audit clients prior to the change in rules in 2010 had been correctly dealt with before 31 December 2014 which was the end of the grandfathering period provided for in the standard.

## Appendix 4: Declaration of independence and objectivity

We have considered this matter, and given the following factors we have determined this to be a less than significant breach of the APB Ethical Standards because KPMG has not received any contingent fee income in respect of this engagement.

Based on the above in our professional judgment we concluded that our objectivity has not been compromised and the firm and the engagement team are independent of the Council and the Pension Fund.

### Auditor declaration

In relation to the audit of the financial statements of London Borough of Brent and London Borough of Brent Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and London Borough of Brent and London Borough of Brent Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. Except for the item referred to above, we also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

**For 2014/15 our materiality is £20 million for the Authority's accounts. For the Pension Fund it is £10 million.**

**We have reported all audit differences over £1 million for the Authority's accounts and £500,000 for the Pension Fund, to the Audit Committee.**

### Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in March 2015

Materiality for the Authority's accounts was set at £20 million which equates to around 1.8 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

### Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

### Materiality – pension fund audit

The same principles apply in setting materiality for the Pension Fund audit. Materiality for the Pension Fund was set at £10 million which is approximately 1.6 percent of gross assets.

We design our procedures to detect errors at a lower level of precision, set at £500,000 million for 2014/15.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

**Tone at the top:** We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Phil Johnstone, as the director sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

**Association with right clients:** We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

**Clear standards and robust audit tools:** We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



### Recruitment, development and assignment of appropriately qualified personnel:

One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical network across the firm that puts us in a strong position to deal with emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



**We continually focus on delivering a high quality audit.**

**This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.**

**Quality must build on the foundations of well trained staff and a robust methodology.**

### **Commitment to technical excellence and quality service delivery:**

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

**Performance of effective and efficient audits:** We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

**Commitment to continuous improvement:** We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

### **Our quality review results**

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report issued June 2014 showed that we are meeting the overall audit quality and regulatory compliance requirements.





*cutting through complexity™*

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