External Audit Report 2015/16

London Borough of Brent

—

September 2016

Contents

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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. Public Sector Audit Appointments 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).

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 Philip 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, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@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, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one: Introduction

Introduction

This document summarises:

- **The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 2015/16 financial statements and those of the Local Government Pension Scheme it administers ('the Fund'); and
- The work to support our 2015/16 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 2015/16*, presented to you in March 2016, 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 July 2015.

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 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 2015/16 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.

Acknowledgements

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

Section two: Headlines

Headlines

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.

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007. 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 2016.
Audit adjustments	Our audit has identified seven audit adjustments which increased the net assets of the Authority by £42.9 million The impact of these adjustments is to: — Increase in the valuation of Council Dwellings within Property, Plant and Equipment by £44.0 million due to an incorrect revaluation calculation and a duplicated accrual; — Decrease of Other Land and Buildings within Property, Plant and Equipment by £2.9 million due to an inappropriate revaluation of a Finance Lease asset; — On the HRA, to increase the gain on disposal of HRA assets by £9.6 million due to receipts not being included in the calculation – this had been accounted for correctly in the Comprehensive Income and Expenditure Statement and thus just impacts on the HRA; — Movement between usable and unusable reserves of £24.8 million due to incorrect treatment relating to an adjustment for the Minimum Revenue Provision; and — Movements between debtors (£10.8 million), creditors (£2.9 million) and provisions (£7.9 million) due to misclassifications. We have included more details on the above audit adjustments at Appendix two. All of these we understand are to be adjusted by the Authority. The Authority decided in order that the year end valuation for Council dwellings was accurate, it commissioned its five yearly detailed valuation of its Council dwellings at 1 April 2016 for completion in early September. As a result of this more detailed valuation the value of Council dwellings was increased by £76 2 million. This means the total change to Council dwellings from the draft financial statements is an increase of £120.2 million. We have raised a recommendation relating to the closedown process which is included in Appendix one. There were a number of minor presentational adjustments for consistency identified by the audit that the Authority has agreed to process.

Headlines (cont.)

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.

This table summarises the headline messages. The remainder of this report provides further details on each area.

Key financial statements audit risks	We identified the following key financial statements audit risks areas in our *2015/16 External audit plan* issued in March 2016. — Oracle General Ledger and Purchase Ledger — Fair value of Property, Plant and Equipment — Actuarial valuation -pension assets and liabilities We have worked with officers throughout the year to discuss these key risks and our detailed findings are reported in section 3 of this report.
Accounts production and audit process	We received a substantially complete draft set of accounts on 24 June 2016 in advance of the DCLG deadline of 30 June 2016. Working papers to support the accounts were provided in a timely manner and officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. There was an improvement this year on the timing of responses by officers. The Authority has implemented some of the recommendations in our *ISA 260 Report 2014/15* relating to the financial statements. Progress on the implementation of recommendations is shown in Appendix 1. As in previous years, we will debrief with the finance team to share views on the final accounts audit. This may lead to efficiencies in the 2016/17 audit process and assist the Authority for planning for the 2017/18 audit when the audit deadline is brought forward to 31 July 2018.

Headlines (cont.)

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.

VFM conclusion and risk areas	We identified the following VFM risks in our *2015/16 External audit plan* issued in March 2016. — Financial Resilience: Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents — Better Care Fund: The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with Brent CCG to administer the local Better Care Fund. As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. There are no matters of any significance arising as result of our audit work in these VFM risk areas. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2016.

Headlines (cont.)

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.

Completion	At the date of this report our audit of the financial statements is complete with the following items to finalise — Updated statement of accounts — Final report from the valuers for the valuation of Council Dwellings — Audited financial statements from Brent Housing Partnership — Minor outstanding audit queries — Final audit closure arrangements including final RI review of accounts. You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 6 September 2016 . We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking management to provide specific representations on the following: ▪ Property, Plant and Equipment Valuations included in the group accounts for Brent Housing Partnership; ▪ No variations have been made to the Private Finance Initiative contracts . 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.
Audit Certificate	In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as we have received six objections to the accounts from local electors. We are currently in the process of considering these objections and assess the work we need to fulfil our statutory duties. We also need to complete the work on your Whole of Government Accounts return prior to the audit certificate being issued. The deadline for the certification of the Whole of Government Accounts return is 21 October 2016 and we are on course to deliver this.

Section three: Financial Statements

Proposed opinion and audit differences

Our audit has identified seven audit adjustments. In addition, the Authority processed an amendment to Property, Plant and Equipment following the detailed five yearly review.

The impact of these adjustments is to:

- **Net increase in Property, Plant and Equipment by £117.3 million**
- **Decrease in current assets of £10.9 million;**
- **Decrease in current liabilities of £10.9 million;**
- **Decrease in usable reserves of £24.8 million with an increase in unusable reserves of £24.8 million:**
- **Resulting in an increase in the net worth of the Authority as at 31 March 2016 by £117.3 million.**

Proposed audit opinion

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 22 September 2016.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material 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 two for more information on materiality) level for this year's audit was set at £12 million. Audit differences below £600,000 are not considered significant.

Our audit identified a total of seven significant audit differences, which we set out in Appendix two. It is our understanding that these will be adjusted in the final version of the financial statements.

The tables on the right illustrate the total impact of audit differences. It also includes the results of the detailed five yearly valuation of the Council dwellings as at 1 April 2016 which was completed in September 2016.

The net impact is to reduce usable reserves by £24.8 million, increase unusable reserves by £144.1 million and increase Property, Plant and Equipment by £117.3 million.

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Movements in Usable Reserves Statement

£m	Pre-audit	Post-audit	*Ref (App.3)*
Total comprehensive income and expenditure	(164,360)	(46,574)	1,2,3*
Adjustments between accounting basis and funding basis under Regulations	195,073	52,467	1,2,3,4*
Increase in Usable Reserves	30,713	5,893	

Balance sheet as at 31 March 2016

£m	Pre-audit	Post-audit	*Ref (App.3)*
Property, plant and equipment	1,340,159	1,457,481	1 – 3*
Other long term assets	57,920	57,920	
Current assets	269,419	258,613	6
Current liabilities	(134,077)	(121,356)	3,5,6
Long term liabilities	(1,115,291)	(1,115,291)	
Net worth	418,130	537,367	
Usable reserves	(349,603)	(324,783)	4
Unusable reserves	(68,527)	(212,584)	4*
Total reserves	(418,130)	537,367	

* In addition to the audit adjustments, the Authority had a full revaluation of Council dwellings as at 1 April 2016 completed in September 2016 that increased Council dwellings and Unusable reserves by £76.192 million

Proposed opinion and audit differences (cont.)

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 2016.

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

In addition, we identified a number of presentational adjustments for consistency within the accounts. We understand that the Authority will be addressing these where significant.

Pension fund audit

Our audit of the Fund did not identify any material misstatements.

For the audit of the Fund we used a lower materiality level of £5 million. Audit differences below £250,000 are not considered significant.

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Audit Committee on 22 September 2016.

There were no significant audit differences identified during the audit.

We did identify a number of presentational adjustments required to ensure that the accounts are compliant with the Code. We understand that the Fund will be addressing these where significant.

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.

Narrative statement

We have reviewed the Narrative Statement and not identified any inconsistencies with the Statement of Accounts

Pension Fund Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

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

Significant audit risks

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, presented to you in March 2016, we identified the significant risks affecting the Authority's 2015/16 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 detailed findings for each of the risks that are specific to the Authority.

Significant Risk 1

— Oracle General Ledger and Purchase Ledger

The Authority's General ledger and accounting system was upgraded to Oracle One (R12) in August 2014. Following a request by management we completed a review of the Finance Service Centre including the application of controls that had been put in place. We made a number of high priority recommendations that if not implemented could lead to errors in the financial statements. This risk affects both the Authority and the Fund.

— Findings

During the course of the audit we did not identify any issues in relation to the general ledger and the purchase ledger. We undertook data and analytics tests over the accounts payable data which did not identify any significant issues. This included testing items without Purchase Orders and those with the Purchase Order the same date as the invoice.

Significant Risk 2

— Fair value of Property, Plant and Equipment

In 2014/15 the Authority reported Property, Plant and Equipment of £1,471 million of which £1,239 million related to land and buildings, including Council dwellings. Local authorities exercise judgement in determining the fair value of the assets held and the methods used to ensure the carrying values recorded each year reflect those fair values. Given the materiality in value and the judgement involved in determining the carrying amounts of assets we consider this to be an area of significant audit risk.

— Findings

Our audit procedures considered the expertise and assumptions used by the valuer during both the initial revaluation exercise and the subsequent detailed five yearly valuation that the Authority had commissioned to be received prior to the completion of the financial statements audit. On the initial valuation we found calculation errors that meant Council dwellings were under valued by £44.9 million. Further details are included in Appendix two. The detailed five yearly valuation resulted in an increase of £76.2 million which meant that Council dwellings increased by £120.2 million from the draft accounts.

We are awaiting the final valuation report on Council dwellings that was completed in September 2016 to complete our audit work on this area.

Significant audit risks (cont.)

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 and the area of audit focus.

Significant Risk 3

— Actuarial valuation - pension assets and liabilities

There is an inherent valuation estimate in respect of the Authority's defined benefit liability. Pension valuations require a significant level of expertise, judgement and estimation and are therefore more susceptible to error. This is also a very complex accounting area increasing the risk of misstatement. This risk affects only the Authority accounts.

— Findings

We reviewed the work of the actuary and considered them as a specialist. Our audit work also reviewed the assumptions applied by the actuary and as a result of our testing we did not identify any issues in relation to the actuarial valuation.

Area of focus 1

— Pension Funds area of focus - Investments

The Pension Fund held £657 million of investments at 31 March 2015. Some of these were unquoted investments which management valued at the year end using unaudited accounts. This risk affects only the Pension Fund.

— Findings

Our audit work considered the unquoted investments which management have valued at the year end using the unaudited accounts. We did not identify any issues in relation to this area during our audit testing.

Significant audit risks (cont.)

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 2015/16* 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.

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Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our External Audit Plan 2015/16 we stated that we do not consider this to be a significant risk for the majority of the Authority's income as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk for Council Tax, Business Rates, Housing rents and annual central Government grants and do not incorporate specific work into our audit plan in these areas over and above our standard fraud procedures. However, we do consider it for income relating to s106 monies, fees and grants that span financial years.

Our audit work therefore considered the fraud risk of revenue recognition for income relating to s106 monies, fees and grants that span financial years. We did not identify any issues in relation to this significant risk.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

There are no matters arising from this work that we need to bring to your attention.

Judgements

We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Assessment of subjective areas				
Asset/liability class	**15/16**	**14/15**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£16.4 million *(PY: £11.2 million)*	The increase in the provisions balance relates mainly to additional provisions being made for appeals on NNDR. We consider the related disclosures to be proportionate, and provisions have been recognised on a consistent basis.
Deferred income	3	3	£22.1 million *(PY: £24.1 million)*	We reviewed this balance through our audit testing and confirmed this related to the PFI at the Authority. No issues were identified and it was considered that the related disclosures are proportionate, and deferred income has been calculated on a consistent basis.
Property, Plant and Equipment	3	5	£1,457.5 million *(PY: £1,471.4 million)*	The Authority has followed the valuation and asset lives supplied by the valuers for other land and buildings and Council dwellings. Council dwellings have had their five yearly detailed review and have reduced in value. The Authority was aware that in prior years council dwellings may have been overvalued due to the indices being used. We have not identified any issues with the valuations used in the post audit accounts.
Pension Liability	3	3	£636.0 million *(PY: £725.0 million)*	We have regarded the actuary as an expert and reviewed the actuarial report and considered the application of assumptions including discount rate, inflation, salary growth and life expectancy against our expectations. We have not identified any issues with the information recorded in the accounts.
Debtors	2	3	£80.8 million *(PY: £67.6 million)*	We have reviewed the impairment for debtors and for certain classes of debt especially relating to individuals our view is that the Authority is slightly on the cautious side but well within the acceptable range.
Creditors including accruals	3	3	£99.2 million *(PY: £97.7 million)*	We consider the related disclosures to be proportionate. The main creditors are consistent with the prior year and in line with our expectations.

Accounts production and audit process

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented some of the recommendations in our ISA 260 Report 2014/15.

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.

Element	Commentary
Accounting practices and financial reporting	The Authority has strengthened its overall financial processes through implementation of the majority of the recommendations raised in our FSC Report from September 2015. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a substantially complete set of draft accounts on 24 June 2016 with a few notes missing including the note on the reconciliation between management structure and the Comprehensive Income and Expenditure Statement.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in February 2016 and discussed with the Head of Finance, set out our working paper requirements for the audit. Overall the quality of working papers provided was timely and good and met the standards specified in our *Accounts Audit Protocol*. There is scope for some improvements in some creditor balance working papers that we will explore with officers post audit.
Response to audit queries	Officers resolved audit queries in a reasonable time.

Element	Commentary
Group audit	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. We bring to the Audit Committee's attention the fact that Brent Housing Partnership accounts have not been prepared on a going concern basis. There are no other specific matters to report pertaining to the group audit.
Pension Fund Audit	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.

Internal audit

Where our audit approach is to undertake controls work on financial systems, we seek to review the findings of any relevant work internal audit have completed to minimise unnecessary duplication of work. This will inform our overall risk assessment process.

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 has implemented some of the recommendations in our *ISA 260 Report 2014/15*. We have detailed in Appendix One, those which have not yet been adequately addressed.

Completion

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.

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 London Borough of Brent and the associated Pension Fund for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Brent and the associated 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.

We have provided a detailed declaration in Appendix four 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.

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.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2015/16 financial statements.

Section four: Value for Money

VFM Conclusion

Our VFM conclusion considers whether 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.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

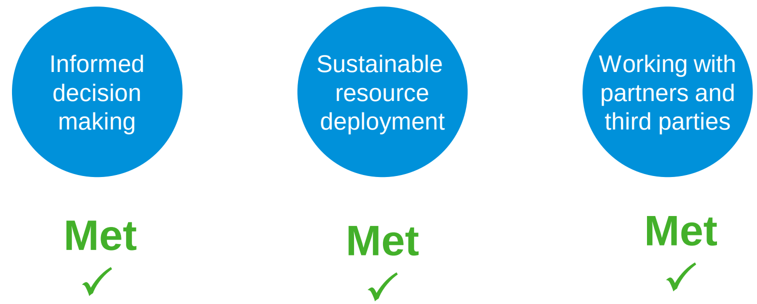
These sub-criteria provide a focus to our VFM work at the Authority.

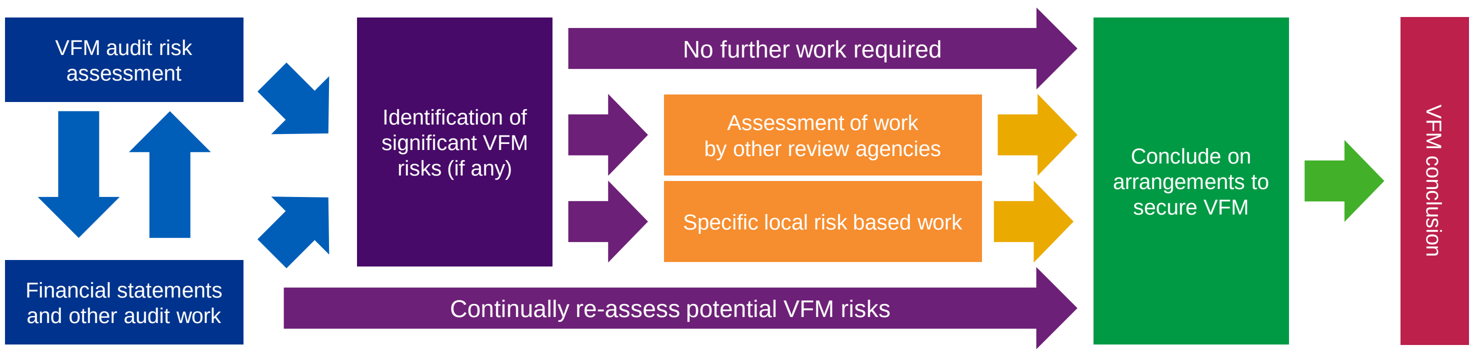
Conclusion

We have concluded that the Authority has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.





Specific VFM Risks

We have identified two specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- Assessed the Authority's key business risks which are relevant to our VFM conclusion;
- Identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- Considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas.

Key findings

Below we set out the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion.

We concluded that we did not need to carry out additional work for these risks as there was sufficient relevant work that had completed by the Authority, inspectorates and review agencies in relation to these risk areas.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financial resilience	Local Authorities are subject to an increasingly challenged financial regime with reduced funding from Central Government whilst having to maintain a statutory and quality level of services to local residents. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	Despite ongoing cost pressures in areas such as temporary accommodation and adult social care, the Authority delivered to its 2015/16 budget. The budget for 2016/17 was set, with a 3.99% increase in Council Tax. At the budget setting meeting in February 2016, initial plans and projections for the 2017/18 budget were presented with £14 million of the estimated £22 million of saving required already identified and approved. Our review of the work completed by inspectorates and agencies did not identify any issues of concern. The Authority's approach to financial planning and financial resilience remains sound.

Specific VFM Risks (cont.)

We have identified a number of specific VFM risks.

In all cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Better Care Fund	The Better Care Fund was set up by Government to encourage joint work across health and adult social care to ensure local people receive better care. Joint arrangements have been established with NHS Brent CCG to administer the local Better Care Fund. As the arrangements are new, crossing the health and social care boundary with organisations who have different legal structures there is a risk that the governance and accounting arrangements may not be well developed to manage this partnership arrangement appropriately. This is relevant to the informed decision making, sustainable resource deployment, working with partners and third parties sub-criteria of the VFM conclusion.	During the audit we reviewed the arrangements in place for the Better Care Fund (BCF) and found that the joint arrangements have been operating for the 2015/16 financial year. Draft Plans are presented to the Health and Wellbeing Board prior to submission. A section 75 pooled budget agreement is in place with NHS Brent CCG and delivery against this is monitored monthly by the BCF Executive Steering Group which includes senior officers from the Authority. There are clear leads over who is responsible for delivering individual projects. Reports against progress and ongoing priority areas are presented to the Health and Wellbeing Board at regular intervals. The Authority has disclosed full details in note 16 of the financial statements.

Appendices

Key issues and recommendations

We have given each recommendation 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					
1	***Priority one***: 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.	2	***Priority two***: 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.	3	***Priority three***: 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	2	**Detailed review** The Authority delivered the draft statement of accounts in advance of the statutory deadline at a time when it was also undergoing a major reorganisation and reduction in staff in the finance function. Our view of some of the adjustments made as a result of our audit and highlighted in Appendix 2 is that they may have been identified through a detailed review of the working papers together with the accounts prior to being presented to the Chief Finance Officer. We recommend that sufficient time is built into the process to allow for a detailed review of working papers with the accounts to be completed prior to presentation to the Chief Finance Officer. This will be increasingly challenging as the deadline for producing unaudited accounts is being brought forwards to 31 May in 2018.	The Authority is reviewing the preparation of its accounts to identify how to bring forward completion of as many elements of the accounts as possible. Much more emphasis will be placed on a month 9 close, and use of estimates where figures do not change materially from month to month. This should prevent work on preparation of the numbers underlying the accounts extending beyond the first week of April. This revised timeline will include time for technical review of the accounts, which should complete by early May, with production of the unaudited accounts by 31st May.

Follow up of prior year recommendations

The Authority has not implemented all of the recommendations in our *ISA 260 Report 2014/15*.

We re-iterate the importance of the outstanding recommendations and recommend that these are implemented as a matter of urgency.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original reports	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	❶	**Finance Service Centre** 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).	Officers reported to the Audit Committee in January 2016 progress made on implementing the recommendations with a majority implemented. We tested a number of the key recommendations through our work on the financial statements and found the following: a) Self approved journals are not routinely reviewed; and b) Changes to bank account details are reviewed by senior management at irregular intervals rather than say on a monthly basis. Without a set timetable, this increases the risk that the control may not be completed in a timely manner. The Authority should ensure these controls operate on a timely basis.

Audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £600k.

It is our understanding that all of these will be adjusted.

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 2016. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

	Impact					
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
1	Cr. CIES £45,889k	Dr Adjustments between funding basis £45,899k	Dr. PPE £45,889k		Cr Revaluation Reserve £45,899k	The Gross Book Value of Council dwellings was used to calculate the loss on revaluation rather than the net book value resulting in a £39m error. In addition, an error in a supporting spreadsheet lead to a further £6m error. As a result the loss on revaluation was overstated by £45,889k.
2	Dr CIES £2,900k	Cr Adjustments between funding basis £2,900k	Cr. PPE £2,900k		Dr Revaluation Reserve £2,900k	An asset leased under a finance lease was incorrectly included in PPE. As the Authority is the lessor there should be no value regarding this on the balance sheet.
3	Dr CIES £1,395k	Cr Adjustments between funding basis £1,395k	Cr PPE £1,861k	Dr Creditors £1,861k		An accrual for capital expenditure on Council dwellings was processed twice

Audit differences (Cont.)

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2016.

We are reporting all audit differences over £600k.

It is our understanding that all of these will be adjusted.

Corrected audit differences (continued)

Impact						
No.	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Basis of audit difference**
4		Dr Adjustments between funding basis £24,820k Cr Transfer to earmarked reserves £24,820k			Dr Earmarked reserves £24,820k Cr CAA £24,820k	Difference relating to an MRP adjustment that was incorrectly included in accounts.
5				Dr Short term provisions £7,964k Cr Creditors £7,964k		DCLG and GLA share of NNDR appeals provisions incorrectly shown on the balance sheet.
6			Cr Debtors £10,806k	Dr Creditors £10,806k		Output VAT included in creditors rather than netted off Input VAT.
7						Incorrect figure was used to calculate the gain/loss on disposal of HRA assets. Error of £9,584k impacts on HRA only as correctly treated in CIES
	Cr £41,594k	**Dr £41,594k**	**Dr £30,322k**	**Dr £12,667k**	**Cr £42,989k**	**Total impact of adjustments**

Audit differences (Cont.)

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

The Authority also had a full detailed revaluation of Council dwellings as at 1 April 2016 completed in September 2016 which lead to Council dwellings and unusable reserves being increased by £76.192 million to reflect the year end value.

We identified a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (‘the Code’) and for consistency within the accounts. These have been discussed with management and we understand that the Authority will be addressing these where significant.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Pension Fund - Corrected and uncorrected audit differences

We are pleased to report that there are no corrected or uncorrected audit differences. There were a number of presentational adjustments required to ensure that the accounts are compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (‘the Code’) and for consistency within the accounts. These have been discussed with management and we understand that the Authority will be addressing these where significant.

Materiality and reporting of audit differences

For 2015/16 our materiality is £12 million for the Authority's accounts. For the Pension Fund it is £5 million.

We have reported all audit differences over £0.6 million for the Authority's accounts and £0.25 million 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 2015/16, presented to you in March 2016.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.3 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision, set at £8 million for 2015/16.

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 £0.6 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 £5 million which is approximately 1 percent of net assets.

We design our procedures to detect errors at a lower level of precision, set at £3.75 million for 2015/16.

Accounts Payable - Data Analytics

Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion.

We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.'

Key Findings

To support our audit approach and to provide insight into the Authority's Non-Pay Expenditure, we have conducted data analytics on the Accounts Payable system.

We conducted 7 tests, and followed up on particular exceptions with management. Our testing included reviewing duplicated supplier invoices, invoices with no matching Purchase Order and invoiced dated prior to Purchase Orders.

Explanations as to the reasons behind the items tested were obtained and deemed reasonable.

There are no issues we need to bring to the Audit Committee's attention.

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Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

“The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor’s recognised supervisory body, or any other body charged with oversight of the auditor’s independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so.”

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.

Declaration of independence and objectivity (cont.)

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.

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 dealings 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 dealings 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.

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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.

Auditor declaration

In relation to the audit of the financial statements of London Borough of Brent and Brent Pension Fund for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and London Borough of Brent and 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.

Declaration of independence and objectivity (cont.)

Audit Fees

Our scale fee for the audit was £199,590 plus VAT (£266,120 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in March 2016. Our scale fee for certification for the HBCOUNT was £20,815 plus VAT and fees for the Teachers Pension Return and Pooling Housing Capital Receipts were £6,000 in total, plus VAT (£6,000 in 2014/15). We also completed an audit related review of the Financial Services Centre in May 2015 for £17,000.

The scale fee for the Pension fund was £21,000 (2014/15 £21,000) plus VAT. The fee is in line with that highlighted in our audit plan agreed by the Audit Committee in March 2015.

Non-audit services

We have summarised below the non-audit services that we have been engaged to provide, the estimated fee, the potential threats to auditor independence and the associated safeguards we have put in place to manage these.

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Forensic review of system error	£35,352	Self interest – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. Self review – The nature of this work was to investigate a specific processing issue that arose at the client. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. Management threat – This work will be advice and support only – any decisions will be made by the Authority. Familiarity – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. Advocacy – We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. Intimidation – Neither the scale of our work or its significance to KPMG as a whole is such that we would consider ourselves at risk of an intimidation threat from LBB to change our behaviours in our role as external auditor in order to satisfy LBB in relation to matters we do not concur with.

Declaration of independence and objectivity (cont.)

Description of non-audit service	Estimated fee	Potential threat to auditor independence and associated safeguards in place
Fraud awareness training	£18,299	Self interest – This engagement is entirely separate from the audit through a separate contract, engagement team and lead partner. In addition, the audit fee scale rates were set independently to KPMG by the PSAA (previously Audit Commission). Therefore, the proposed engagement will have no perceived or actual impact on the audit team and the audit team resources that will be deployed to perform a robust and thorough audit. Self review – The nature of this work is to provide training for the Authority's staff on fraud awareness. Therefore, it does not impact on our opinion and we do not consider that the outcome of this work will be a threat to our role as external auditors. The existence of a separate team for this work is a further safeguard. Consequently, we consider we have appropriately managed this threat. Management threat – This work will be advice and support only – all decisions will be made by the Authority. Familiarity – This threat is limited given the scale, nature and timing of the work. The existence of the separate team for this work is the key safeguard. Advocacy – We will not act as advocates for the Authority in any aspect of this work. We will draw on our experience in such roles to provide the Authority with a range of approaches but the scope of this work falls well short of any advocacy role. Intimidation – Neither the scale of our work or its significance to KPMG as a whole is such that we would consider ourselves at risk of an intimidation threat from LBB to change our behaviours in our role as external auditor in order to satisfy LBB in relation to matters we do not concur with.
Total fees as a percentage of the external audit fees	26%	Prior to accepting the work on fraud awareness training, in line with PSAA's terms and conditions on the level of non audit services provided to audit clients, we were required to seek their authorisation which included us providing our terms of reference and the safeguards we had in place for auditor independence.

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