



External Audit Report 2016/17

London Borough of Brent

September 2017 - **DRAFT**

Content

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This report is addressed to London Borough of Brent (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. PSAA 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 PSAA'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 Andrew Sayers, 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 (0207 694 8981, 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.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Brent (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (NAO) has issued a document entitled Code of Audit Practice (the Code). This summarises where the responsibilities of auditors begin and end and what is expected from the Authority. External auditors do not act as a substitute for the Authority'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.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. Aspects of the following work is ongoing:

- Financial statements audit – receipt of the audited Brent Housing Partnership accounts and minor queries on expenditure, creditors and Pension Fund investments;
- Whole of Governments Accounts – agreement of inter authority balances and allocation of income and expenditure;
- Review of the Pension Fund Annual Report;
- VFM – consideration of partnerships;
- Senior manager and partner final reviews;
- Updated financial statements; and
- Completion procedures including review of post balance sheet events up- to the date of signing and receipt of the signed management representation letter.

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements prior to the deadline of 30 September 2017, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements prior to the deadline of 30 September 2017.

Subject to the matters on page 3, we have completed our audit of the financial statements. We have read the narrative report and reviewed the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences, there was two adjusted audit difference and one adjustment relating to an update of an estimate made when preparing the accounts. We discussed and agreed some minor presentational changes to the accounts with officers.
- As in prior years we are asking for one management representation in addition to the routine items, this is to confirm that there have been no contract variations to the PFI Schemes during the year.
- We will report that your AGS complies with delivering Good Governance guidance issued by CIPFA / SOLACE in April 2016.
- We reviewed the narrative report and have no matters to raise with you.
- We have received one objection from a local elector this year which we are currently deciding whether to accept.
- 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 six objections, covering two areas, relating to the 2015/16 financial statements that we are in the process of considering.

Value for money – see section 3 for further details

Based on the findings of our work, and subject to satisfactory completion of our work in relation to partnerships, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion prior to the deadline of 30 September 2017.

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 other 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 2016/17 financial statements..

The National Audit Office Code of Audit Practice (the Code) requires that auditors should consider:

- whether, in the public interest, they should report on any matter that comes to their notice so that it is brought to the attention of the audited body and the public; and
- whether to use powers under the Local Audit and Accountability Act 2014 to make written recommendations to the audited body which need to be considered by the body and responded to publicly.

We have issued no such reports or recommendations.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2015/16. We have made one new recommendation as a result of our 2016/17 work. The recommendations relates to the controls over providing accurate data for members of the Pension Scheme to the actuaries and is shown in appendix 1.

We undertake the audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started and the deadlines are 30 November. The fees for this work is explained in section two.

Section Two

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage		
	Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2016/17 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section.
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made one recommendation relating to the controls over providing accurate data for members of the Pension Scheme to the actuaries. We believe that the recommendation (see appendix 1) will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with officers and this was issued as a final document to the finance team. The working papers were generally of a good standard although elements of debtors and creditors could be strengthened.

Section Two

Financial statements audit

4. Accounting standards	<p>We work with you to understand changes to accounting standards and other technical issues. For 2016/17 these changes related to:</p> <ul style="list-style-type: none">• Updates to the presentation of the Comprehensive Income and Expenditure Statement and the Movements in Reserves Statement and the introduction of the new Expenditure and Funding Analysis:• Amended guidance on the Annual Governance Statement: and• Changes in the format of the Pension Fund accounts. <p>There were no issues arising from these changes that we need to report to you.</p>
5. Accounts Production	<p>We received draft financial statements on 19 June 2017, nearly two weeks in advance of the statutory deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17. We will debrief with Finance to share views on the final accounts audit which hopefully will lead to further efficiencies in the 2017/18 audit process. The statutory deadline for publishing the draft financial statements is being brought forwards in 2017/18 to 31 May 2018, with an audit deadline of 31 July 2018 and the Authority will need to ensure that this deadline will be achieved, building upon the work completed this year.</p> <p>We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.</p>
6. Testing	<p>We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We identified one adjusted audit difference of £4.2 million which reduced debtors and creditors, one adjustment of £730,000 relating to a transfer between reserves and the Council revised an estimate used in the valuation of Council dwellings and PFI properties as more accurate information became available after the financial statements had been prepared. Details of these are shown in Appendix 2. We also identified a number of presentational changes to the accounts which the Authority adjusted.</p>
7. Representations	<p>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 Chief Finance Officer on 4 September 2017. We draw 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 that there have been no variations to PFI contracts this year.</p>

Section Two

Financial statements audit

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, opening balances, public interest reporting, questions/objections, 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 2016/17 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the following areas which were identified as significant risks, or other areas of audit focus, within our audit plan;
 - LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only);
 - Property, Plant and Equipment: Council dwellings and Other Land and Buildings valuations (Authority only);
 - Risk of Revenue Recognition for section 106 income (Authority only);
 - Investments (Pension Fund only); and
 - Restatement of CIES, EFA and MIRS (disclosure, Authority only)
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Section Two

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Background and summary of findings
Risk : LGPS Triennial Valuation (Authority and Pension Fund) and annual IAS 19 valuation (Authority only)	Authority – pension liability at 31 March 2017 £818 million <i>PY £635 million</i> Pension Fund – disclosures on the triennial valuation including net liabilities of £833 million <i>PY £731 million</i>	<p>The triennial valuation at 31 March 2016 forms the basis for contributions to the Pension Fund for the three years from 1 April 2017 and the baseline assumptions for the Authority's annual IAS 19 valuation. We reviewed the approach to the valuation, the qualifications, actuarial assumptions and reports by the Authority's actuary and data submitted for the whole Pension Fund.</p> <p>The initial detailed information provided by the Authority to the actuary relating to members of the pension scheme as part of the Pension Fund triennial valuation contained various errors and the Authority liaised with the actuary to resolve these. We have made a recommendation in relation to this. We completed our testing on the revised figures provided and were satisfied with the figures provided.</p> <p>Our review did not identify any other issues to bring to your attention.</p> <p>For the annual IAS 19 valuation we completed a similar review on the data provided and actuarial assumptions made for the Authority and confirmed that the figures are accurately reflected in the Authority's financial statements.</p> <p>Our review did not identify any issues to bring to your attention.</p>
Risk ; Property, Plant and Equipment: Valuation of Council dwellings and Other Land and Buildings (Authority only)	Council dwellings £650 million <i>PY £635 million</i> Other Land and Buildings £639 million <i>PY £606 million</i>	<p>We undertook detailed testing of Property, Plant and Equipment as part of our final accounts audit, including specific testing of the asset valuation. We reviewed the approach to valuation, the qualifications and reports by the Authority's valuers and the judgements made by the Authority in response to the information received and found the method and assumptions used to be reasonable.</p> <p>We considered the basis on which the valuation has been carried out to ensure it is in line with <i>The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17</i>. We carried out testing to ensure that revaluation gains and losses have been correctly reflected in the financial statements.</p> <p>An adjustment was made to Council dwellings of £30m and other land and buildings of £4m as the Authority revised the estimate used for house price inflation following more accurate information becoming available after the accounts were prepared. This difference was a result of updates to the Land Registry data following the preparation of the accounts rather than any errors or processes adopted by the Authority in preparing their accounts. There are no further matters we need to bring to your attention.</p>
Risk ; Investments: Valuation and completeness (Pension Fund only)	Investments £802 million <i>PY £674 million</i>	<p>We have obtained direct confirmations from the Fund managers and the Custodian and reconciled these to the financial statements, We have also reviewed the ISAE3402 compliance reports for the Fund Managers to give us assurance over their controls.</p> <p>Our review did not identify any issues to bring to your attention.</p>

Section Two

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Background and summary of findings
Risk : Risk of Revenue Recognition for section 106 income (Authority only);	Earmarked reserves £24 million <i>PY £24 million</i>	We undertook testing of monies received in respect of s106 agreements that were transferred into the reserve and also reviewed the year end balances to ensure that amounts carried forwards remained valid and available to use. Our review did not identify any issues to bring to your attention.

Other areas of audit focus

We identified one other area of audit focus. This is not considered to be a significant risks as it is less likely to give rise to a material error. Nonetheless this is an area of importance where we carry out audit procedures to ensure that there is no material misstatement.

Other areas of audit focus	Account balances effected	Summary of findings
Risk: Restatement of CIES, EFA and MIRS (Authority only)	CIES gross expenditure £1,122 million <i>PY £1,098 million</i>	Changes to the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 were made to the presentation of the Comprehensive Income and Expenditure Account and Movement in Reserves Statement (MiRS) together with a new Expenditure and Funding Analysis (EFA). We reviewed the layout of the revised statements and the approach to the restatement of the prior year figures comparing them to how figures are reported throughout the year. We confirmed that expenditure and income was being recorded correctly. Our review did not identify any issues to bring to your attention.

Section Two

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
<p>Fraud risk from 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>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, annual central Government grants and social services income 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 that span financial years and often have to be used on specific projects, see page 10.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Fraud risk from management override of controls</p>	<p>Management is typically in a powerful position to perpetrate fraud owing to 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.</p> <p>In line with our methodology, we carry 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>We have not identified any specific additional risks of management override relating to this audit.</p>	<p>There are no matters arising from this work that we need to bring to your attention.</p>

Section Two

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:



Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Provisions	3	3	£22 million (PY: £16 million)	We consider the provisions to be proportionate. The main provisions on insurance and business rates appeals are consistent with the prior year and in line with our expectations. We have reviewed the increase of £4.7 million in outstanding legal cases and found the items tested were supported by appropriate estimates.
Creditors including accruals	3	3	£111 million (PY: £107 million)	The main creditors are consistent with the prior year and in line with our expectations. We consider the provisions to be appropriate.
Debtors	3	3	£90 million (PY: £80 million)	Debtors consist of gross debtors of £143 million (2015:16 £133 million) with provision for impairment made of £53 million (2015/16: £53 million). The main categories of impairments are for overpaid housing benefits, business rates and Council Tax. We consider the provisions to be appropriate.
Pensions liability	3	3	£818 million (PY: £636 million)	The Authority uses Hymans Robertson as an actuarial expert to assist them in calculating the pension liability. We reviewed the discount rate, inflation, discount rate, salary growth and life expectancy rates used by the Authority and these are in line with the range expected. The increase in the liability is mainly due to a decrease in the discount rate.

Section Two

Financial statements audit

Assessment of subjective areas				
Asset / liability class	Current year	Prior year	Balance (£m)	KPMG comment
Property, Plant and Equipment – other land and buildings (valuations / asset lives)	3	3	£639 million (PY: £606 million)	The Authority uses a mixture of internal and external valuers to revalue other land and buildings and has followed the valuation and asset lives supplied by the valuers. We reviewed the instructions provided and deem that the valuation exercise was completed in line with the instructions provided.
Property, Plant and Equipment – Council dwellings (valuations)	3	3	£650 million (PY: £635 million)	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. A full revaluation of Council dwellings using this method was undertaken on 1 April 2016 and incorporated into the 2015/16 financial statements and this was adjusted to take account of movements in house prices in Brent during the financial year. The Authority used the latest data available from the HM Land Registry UK House Price Index when the accounts were prepared and adjusted the valuation downwards by 2.31%. At the time of the audit, the Index had been revised following additional sales being registered and the Index was showing an increase of 2.47% by 31 August. The Authority decided to adjust the estimate used to reflect the updated more accurate information that became available after the accounts were prepared. Our overall view is that the figure used is balanced.

Narrative report of the Authority

We have reviewed the Authority's narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Pension fund audit

The audit of the pension fund was completed alongside the main audit. We have reported our finding against the significant risks and areas of audit concern alongside the main Authority on pages 9 to 11. There are no specific matters to bring to your attention relating to this.

Pension Fund Annual Report

We received the complete Pension Fund Annual Report on 6 September 2017. We anticipate completing our review on the Report and issuing our opinion on the Pension Fund Annual Report during September.

Section Two

Financial statements audit

Queries from local electors

We received an objection from a member of the public in respect of the audit year. We have completed some initial enquiries and are currently deciding whether we will accept the objection.

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 expecting to complete the work on the Whole of Government Accounts and Pension Fund Annual Report by the time we issue our audit opinion but we are not in a position to issue our audit certificate with the audit opinion as:

- We have received an objection from a local elector that we need to consider and follow the legislative process.
- We accepted six objections relating to the 2015/16 that we are still in the process of deciding.

Until we have completed our consideration of these, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Whole of Government Accounts (WGA)

We received your WGA consolidation pack on 23 August 2017 and are currently carrying out our work on this. We anticipate completing the work in advance of the 29 September 2017 audit deadline.

Other grants and claims work

We undertake the audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant that does not fall under the PSAA arrangements. These have not yet been started as the deadline is 30 November 2017.

Audit fees

Our fee for the audit was £199,590 excluding VAT (£199,590 excluding VAT in 2015/16). This fee was in line with that highlighted in our audit plan approved by the Audit Committee in March 2017. In respect of 2015/16 audit, we received six objections, the work of which we complete will lead to additional fees that will be agreed with both the Chief Finance Officer and PSAA. We estimate that to date the fees incurred are approximately £12,000.

Our work on the certification of Housing Benefits (BEN01) started in August 2017 and has an audit deadline of 30 November 2017. The planned scale fee for this is £22,115 excluding VAT (£21,663 excluding VAT in 2015/16).

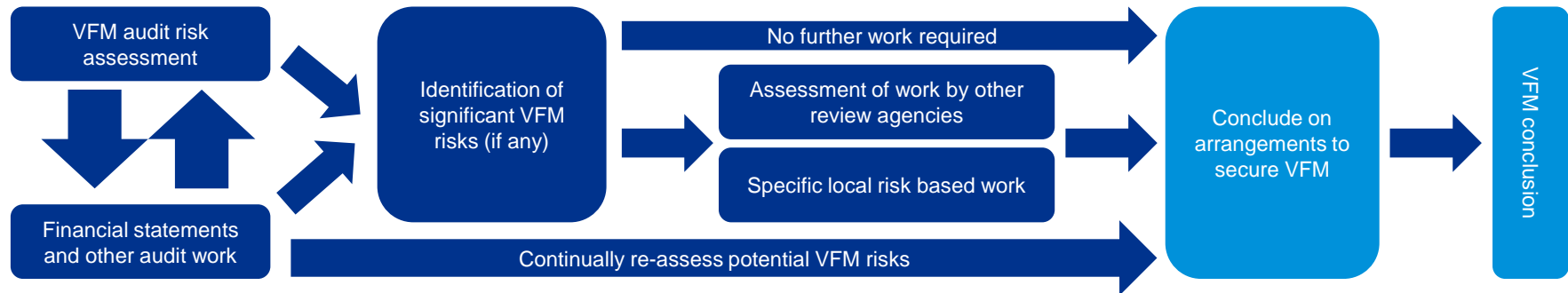
The estimated fees for our audit of the Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant is £6,500.

We have been engaged by the Authority since 2010 to assist in managing the Council's VAT claims in respect of the VAT treatment of the Council's sporting services. A fee of £10,000 was raised in August 2017.

Section Three

Value for money conclusion

For 2016/17 our value for money (VFM) work follows the NAO's guidance. It is risk based and targets audit effort on the areas of greatest audit risk. Our methodology is summarised below. We did not identify any significant VFM risks but we identified financial resilience as an area for audit focus where we would keep a watching brief. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2017, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.



Other areas of audit focus

We set out on page 16 the detailed findings against our other areas of audit focus for our VFM work.

Value for money conclusion

VFM: other area of audit focus	Our audit response and findings
Financial resilience	<p>Review of financial position and medium term financial plans</p> <p>The Authority's outturn for 2016/17 showed that it achieved budget overall with overspends in Community Wellbeing (£3.2m), Children and Young People (£2.3m) and Resources (£2.1m) being matched with underspends in Regeneration and Environment (£4m) and Central items (£3.6m). The Council also increased its earmarked revenue reserves by £1.3m to £143.7m.</p> <p>The outturn is managed throughout the year with individual Directorates taking ownership of their budgets and managing any cost pressures initially within their Directorates. Variances to outturn are reported to and monitored by central finance and these are reported both to the Corporate Management Team and Cabinet ensuring officers and Members are aware of the financial position.</p> <p>The Authority takes a long term approach to financial planning ensuring that savings required are identified in advance. The Medium Term Financial Plan covering 2017/18 to 2019/20 was updated and reported to Cabinet three times during the 2016/17 year, the final one recommended the 2017/18 budget to full Council. The budget included £14.7m of cost pressures, mainly through increased demand or inflation with in year savings of £19.8m required, all of which had been identified.</p> <p>The Medium Term Financial Plan presented as part of 2017/18 budget approval process had already identified sufficient savings to deliver a balanced budget for 2018/19 based upon current assumptions and identified a potential budget gap of £12m for 2019/20. By planning in advance, this gives the Authority time to clearly assess options for resolving the gap and ensuring the plans to deliver it are robust and deliverable.</p>

Appendix 1

Recommendations raised and followed up

Recommendation raised as a result of our work in the current year are as follows:

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.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	<p>Pension details</p> <p>The initial detailed information provided by the Authority to the actuary relating to members of the pension scheme as part of the Pension Fund triennial valuation contained various errors that meant the valuation results were delayed. The errors were resolved but the Authority should put in place arrangements to ensure that accurate pension data is available to supply to actuaries and individual members when required.</p>	<p>The Authority accepts that there were errors in the initial information provided to the Actuary although that these were subsequently resolved. Following the valuation a review took place between April and May 2017 between the Council's in house pension administration service, the external contractor responsible for the data and the actuary to ensure lessons were learned and appropriate actions agreed. This includes measures to ensure data cleansing on a more regular basis to prevent errors.</p>

Appendix 1

Recommendations raised and followed up

We have followed up the recommendations from the prior year's audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	2	0

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
1	2	<p>Detailed review</p> <p>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.</p> <p>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.</p>	<p>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 31 May.</p>	<p>Implemented</p> <p>Time was built into the programme to allow a review of the financial statements which is reflected in the reductions of audit adjustments.</p> <p>With the deadline being brought forwards to 31 May next year, the Authority will need to ensure sufficient review time is maintained.</p>

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at September 2017
Financial statements				
2	3	<p>We tested a number of the key recommendations we made in our detailed review of the Finance Service Centre review and found the following:</p> <p>a) Self approved journals are not routinely reviewed; and</p> <p>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.</p> <p>The Authority should ensure these controls operate on a timely basis.</p>	No specific comment but accepted	<p>Implemented</p> <p>Self reviewed journals are reviewed periodically throughout the year</p> <p>Set process in place for changes to bank account details which are overseen by management and tested by internal audit.</p>

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- 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; and
- 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 2016/17, presented to you on 28 February 2017.

Materiality for the Authority's accounts was set at £12 million which equates to around 1% of gross expenditure.

Materiality for the Pension Fund was set at £6 million which equates to around 0.75% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to 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 £600,000 for the Authority and less than £300,000 for the Pension Fund.

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.

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £600,000 for the Authority and £300,000 for the Pension Fund are shown below.

There are no unadjusted audit differences for the Authority or the Pension Fund.

Appendix 3

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of non trivial adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'000)						
#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1	Cr Surplus on Revaluation of Property, Plant & Equipment Assets £4,068 Cr Gross expenditure – HRA Community Welfare £30,273	Dr Adjustments between accounting and funding basis – HRA £30,273 Dr Other comprehensive income and expenditure – Revaluation £4,068	Dr Property, Plant and Equipment – Council dwellings £30,273 Dr Property, Plant and Equipment – other land and buildings £4,068		Cr Revaluation reserves £4,068 Cr Capital Adjustment Account £30,273	The Authority applied an indexation adjustment to the full valuation undertaken on 1 April 2016 for Council dwellings and PFI properties to ensure that the year end valuation is materially correct. The indexation adjustment is based on HM Land Registry UK Land Price index for Brent. At the time of the accounts preparation, the Authority made an appropriate estimate of a 2.31% fall in value based on the data available at the time. However, changes in the underlying Land Registry data as additional sales have been registered since the estimate was made, resulted in the index showing a 2.47% increase at the time of the audit. Given this information, the Authority revised their estimate to reflect the latest data available. This was not, therefore, an error in the original preparation but an update as new information had become available.
2			Cr Debtors £4,199	Dr Creditors £4,199		Output VAT included in creditors rather than netted off Input VAT.
3		Dr Adjustments between accounting and funding basis General Fund £730 Cr Adjustments between accounting and funding basis - Capital grants unapplied £730			Dr Earmarked reserves £730 Cr Capital grants unapplied £730	Reallocation of capital funding

Appendix 4

Audit independence

This appendix communicates all significant facts and matters that bear on KPMG LLP's independence and objectivity and informs you of the requirements of *ISA 260 (UK and Ireland) Communication of Audit Matters to Those Charged with Governance*.

Integrity, objectivity and independence

We are required to communicate to you 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 KPMG LLP's independence and the objectivity of the Engagement Lead and audit team. We have considered the fees paid to us by the Authority for professional services provided by us during the reporting period. We are satisfied that our general procedures support our independence and objectivity.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies all KPMG LLP audit partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings. Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews. We would be happy to discuss any of these aspects of our procedures in more detail. There are no other matters that, in our professional judgement, bear on our independence which need to be disclosed.

Audit matters

We are required to comply with *ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance* when carrying out the audit. ISA 260 requires that we consider the following audit matters and formally communicate them to those charged with governance:

- Relationships that may bear on the firm's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- The general approach and overall scope of the audit, including any expected limitations thereon, or any additional requirements;
- The selection of, or changes in, significant accounting policies and practices that have, or could have, a material effect on the Authority's financial statements;
- The potential effect on the accounts of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- Audit adjustments, whether or not recorded by the entity that have, or could have, a material effect on the Authority's financial statements;
- Material uncertainties related to events and conditions that may cast significant doubt on the Authority's ability to continue as a going concern;
- Disagreements with Management about matters that, individually or in aggregate, could be significant to the Authority's financial statements or the auditor's report. These communications include consideration of whether the matter has, or has not, been resolved and the significance of the matter;
- Expected modifications to the auditor's report;

Appendix 4

Audit independence

- Other matters warranting attention by those charged with governance, such as material weaknesses in internal control, questions regarding management integrity, and fraud involving management; and
- Any other matters agreed upon in the terms of the audit engagement.

We continue to discharge these responsibilities through our attendance at Audit Committees, commentary and reporting and, in the case of uncorrected misstatements, through our request for management representations.

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 2017 we confirm that there were no relationships between KPMG LLP and London Borough of Brent and London Borough of Brent Pension Fund, their directors and senior management and their affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We summarise overleaf the non-audit services that we have provided, the fee, the potential threats to auditor independence and the associated safeguards in place.

Appendix 4

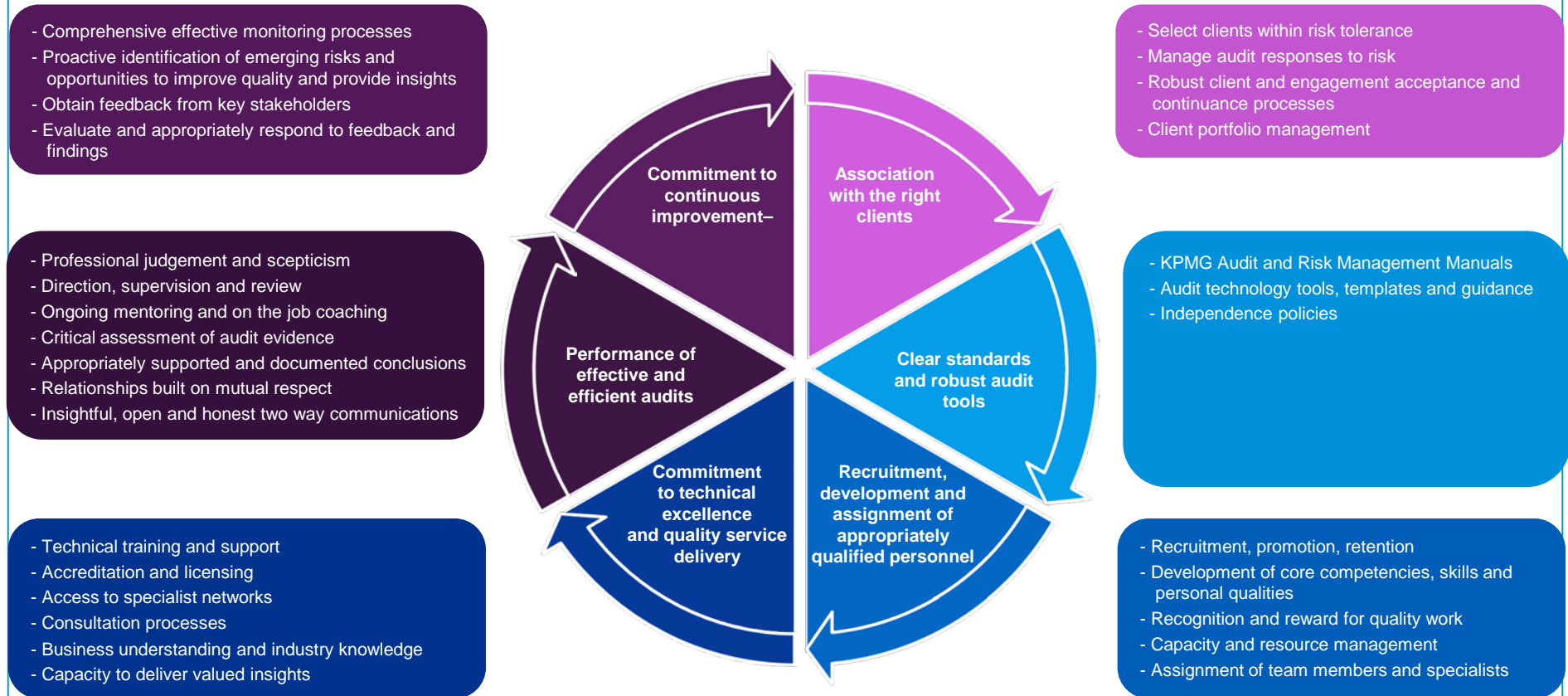
Audit independence

Description of non audit services	2016-17 fees	Potential threat to auditor independence	Associated safeguards in place
Advising and managing the Council's VAT claims in respect of the VAT treatment of the Council's sporting services.	£10,000 excluding VAT	There are six potential threats: Self-review; Management; Advocacy; Intimidation; Familiarity; Self-interest; and Assuming management responsibility.	<p>In determining that the firm can provide this non-audit service we have exercised professional judgement to evaluate the threats to independence, ensured that applied safeguards are sufficient to reduce threats to a level where it is probable that an objective, reasonable and informed third party would conclude that integrity is not compromised.</p> <p>In summary, the scope of the services is agreed under a separate terms of engagement from the financial statements audit.</p> <ul style="list-style-type: none"> • The fees for the services are not material to the Authority or KPMG. • The service was delivered by a team separate to the audit team. • The service does not have an impact on the financial statements and did not involve reviewing any controls at the Authority. • This fee is for VAT advisory services in respect of the Authority's claim and protective appeal which will be held behind the lead case. We do not represent the Authority at Tribunals or with HMRC and all correspondence we send to HMRC is agreed in advance.
Teachers' Pension return and Pooling of Housing Capital receipts	£6,500 excluding VAT	No threats to auditor independence arises.	This is a service typically performed by external auditors, no specific safeguards are necessary.
Total fees	£16,500 excluding VAT		
Total fees as a % of the external audit fees	8.3%		

We have considered the ratio of audit to non-audit fees and as required by the APB Ethical Standards. The principal threat which arises from fees from non-audit services which are large in absolute terms relative to the audit fee is the perception of self-interest and advocacy. In this regard, we do not consider that the above ratio creates such a self-interest or advocacy threat since the absolute level of non-audit fees is not significant to our firm as a whole and neither the audit partner nor members of the audit team are incentivised on, or rewarded in respect of, the provision of non-audit services to you. We believe that the question of perception is best addressed through appropriate disclosure as to use of the auditor for the provision of non-audit services in the Authority's annual report and accounts.

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





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