

The Audit Findings for Brent Pension Fund

Year ended 31 March 2019

July 2019



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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Headlines

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

Financial Statements	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements:</p> <ul style="list-style-type: none">• give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and• have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	<p>Our audit work was completed on site during June and July. Our findings are summarised on pages 4 to 9. We have identified no adjustments to the financial statements that have had an impact on the Pension Fund's reported financial position. Audit adjustments and misclassification disclosure changes are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion Appendix C.</p> <p><i>Outstanding items include the following items where we are awaiting information from you as at the date of writing this report in order to continue our work:</i></p> <ul style="list-style-type: none">- a listing for administering authority to be able to pick a sample of 5 items for contributions testing;- processing of audit evidence for 4 items relating to the debtors sample- responses to 2 queries on the benefits sample <p><i>We are still completing work in the following areas, in addition to those areas above where we are awaiting information:</i></p> <ul style="list-style-type: none">- process of evidence for 5 items relating to the sample of contributions;- review of financial instruments, related parties and key management personnel disclosures;- updating our work on investments when we receive the outstanding confirmations; and- pick a sample of investment transactions for cut off and purchases and sales testing <p><i>We are still to complete the following closing procedures, which are concluded at the end of the audit:</i></p> <ul style="list-style-type: none">- review of impact of McCloud judgement on the IAS 26 disclosure;- senior management quality reviews;- receipt of your management representation letter;- consideration of subsequent events; and- review of the final set of financial statements. <p>Our anticipated audit report opinion will be unqualified.</p>
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Acknowledgements

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

Summary

Overview of the scope of our audit

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

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

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

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 10 July 2019, as detailed in Appendix C.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our audit plan. We detail in the table below our determination of materiality for Brent Pension Fund.

	Pension Fund Amount (£)
Materiality for the financial statements	8,001,000
Performance materiality	6,001,000
Trivial matters	400,000

Significant findings – audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.

This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

During our risk assessment, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition
- opportunities to manipulate revenue recognition are very limited
- the culture and ethical frameworks of local authorities, including London Borough of Brent, mean that all forms of fraud are seen as unacceptable

Therefore we did not consider this to be a significant risk for Brent Pension Fund.

We have not made any changes to this assessment reported to you in the Audit Plan.

2

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.

Auditor commentary

We have:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determine the criteria for selecting high risk unusual journals;
- tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;
- gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Our audit work has not identified any issues in respect of management override of controls.

Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p>3 The valuation of Level 3 investments is incorrect</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>Auditor commentary</p> <p>We have</p> <ul style="list-style-type: none">• gained an understanding of the Fund's management processes for valuing Level 3 investments and evaluated the design of the associated controls;• reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; and• for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreed these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2019 with reference to known movements in the intervening period. <p>We have not identified any issues in respect of the valuation of Level 3 investments.</p>

Going concern

Our responsibility

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

Going concern commentary

Management’s assessment process

Management have reviewed the Fund’s funding position and cash flows.

Auditor commentary

- The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the London Borough of Brent Pension Fund.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

Work performed

Detail audit work performed on management’s assessment

Auditor commentary

- We have reviewed management’s assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation as at 31 March 2016 showed the funding level of 55% with a plan to achieve 100% solvency over the 19 years from that valuation.
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.
-

Significant findings - other issues

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

Issue	Commentary	Auditor view
<p>1 Potential impact of the McCloud judgement</p> <p>The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members.</p> <p>The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful. The case will now be remitted back to employment tribunal for remedy.</p> <p>The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds, but also for other pension schemes where they have implemented transitional arrangements on changing benefits.</p>	<p>Discussions are ongoing in the sector regarding the potential impact of the ruling and the application for appeal on the financial statements of Local Government Pension Schemes.</p> <p>The Pension Fund has requested an estimate from its actuary of the potential impact of the McCloud ruling on the disclosure of the IAS 26 Actuarial present value of promised retirement benefits in Note 19. The Pension Fund has not yet received the estimate from its actuary.</p>	<p>We will review the analysis performed by the actuary, and consider whether the approach that has been taken to arrive at this estimate is reasonable.</p> <p>Although we are of the view that there is sufficient evidence to indicate that any liability related to the McCloud judgement is probable, we will have to satisfy ourselves that there is not a risk of material error as a result of this issue. We also acknowledge the significant uncertainties relating to the estimation of the impact on the Council's liability.</p> <p>We have included this as a likely disclosure change within Appendix B.</p>

Other communication requirements

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

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Pension Fund, which is included in the Audit and Standards Committee papers.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your custodian, investment fund managers and banks. This permission was granted and the requests were sent. Most of these requests were returned with positive confirmation, however 2 requests from Legal & General and Northern Trust were not received so management are supporting our chasing efforts.
⑥ Disclosures	<ul style="list-style-type: none"> We found some disclosure that required updating. See Appendix B for further details.
⑦ Audit evidence and explanations	<ul style="list-style-type: none"> We did not encounter any significant difficulties in carrying out the audit. The Pension Fund accounting team replied to our queries in a timely manner and in sufficient detail.
⑧ Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until the 1st December 2019 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed below

Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to July 2019, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Fees

We confirm below our final fees charged for the audit. We confirm there were no fees for the provision of non-audit or audit-related services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	16,170	TBC
Total audit fees (excluding VAT)	16,170	TBC

Follow up of prior year recommendations

Your previous auditors, KPMG, identified the following issue in the audit of Brent Pension Fund's 2017/18 financial statements, which resulted in 1 recommendation being reported in our 2017/18 Audit Findings report. We are pleased to report that management have implemented all of KPMG's recommendations.

Assessment	Issue and risk previously communicated by KPMG	Update on actions taken to address the issue
<p>① ✓</p>	<p>Accounts preparation of the Pension Fund</p> <p>The Authority does not put through the general ledger all the entries relating to increases in market value of investments but uses the Custodian report as the basis for preparing the asset values included in the accounts. Not using a full trial balance to prepare the accounts can lead to an enhanced risk that errors may occur. We identified two errors relating to assets in the accounts:</p> <ul style="list-style-type: none"> • One where the incorrect bank balance figure was given to the custodian; and • One where the custodian did not use the final year end report from a Fund manager. <p>We recommend that the Authority puts journals through the general ledger for all entries in the Pension Fund accounts and reconciles reports from Fund Managers to the Custodian report.</p>	<p>Management have confirmed that they have reflected the balances from the custodians reports (i.e. market value of investments) in the general ledger. This has been confirmed by our work on investments. Therefore this recommendation has been implemented.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

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

Impact of adjusted misstatements

We have not identified any adjusted misstatements in relation to the 2018/19. Statement of Accounts as at the date of writing this report.

Impact of unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2018/19. Statement of Accounts as at the date of writing this report. If any are subsequently identified, the Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Impact of prior year unadjusted misstatements

We have not identified any unadjusted misstatements in relation to the 2017/18 Statement of Accounts as at the date of writing this report.

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
McCloud and IAS 26 disclosure	As detailed in the Significant findings - other issues section on page 8, there may be a change in the disclosure of the IAS 26 Actuarial present value of promised retirement benefits in Note 19 due to an updated estimate from your actuary following the McCloud Adjustment.	<ul style="list-style-type: none"> Management should obtain an updated estimate of the IAS 26 Actuarial present value of promised retirement benefits as at 31 March 2019 taking into account the findings from the McCloud judgement and update the disclosure if there is a material difference. 	TBC

Audit Adjustments

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Key Management Personnel	<p>Note 23 referred to the disclosure of Key management personnel in the main accounts of London Borough of Brent. Our interpretation of the Code is that the pension fund accounts must be capable of standing alone from the local authority financial statements as:</p> <ul style="list-style-type: none"> local authority pension fund accounts are not only published alongside the financial statements of the administering authority but are also published separately within the Pension Fund annual report the disclosures set out in the local authority financial statements will refer to officers and members who are not involved in the management of the Pension Fund 	<ul style="list-style-type: none"> Management should determine who are the key management personnel of the pension fund and include the disclosures required under section 3.4 of the Code in respect of the key management personnel, within Note 23 of the pension fund accounts. 	✓
Accounting Adjustment	<p>Note 11 disclosed £2.2m expenditure a Accounting adjustment. On investigation, this was a write off of a historical investment balance error. This would be better described as a write off of an investment balance, and a narrative disclosure added to explain the nature of the transaction to users of the accounts.</p>	<ul style="list-style-type: none"> Management should describe this as a write off of an investment balance. 	✓
Member Data	<p>The member data disclosed in Note 1 b) of the draft accounts was not correct. The total number of members was correct, but the split between Administering Authority, Scheduled Bodies and Admitted Bodies was incorrect.</p>	<ul style="list-style-type: none"> Management should correct the disclosure in the next draft of the accounts. 	✓
Actuarial Assumptions	<p>In Note 19, the Actuarial present value of promised retirement benefits, the discount rate and sensitivity analysis did not agree to the IAS 19 report from the actuary.</p>	<ul style="list-style-type: none"> Management should correct the disclosure in the next draft of the accounts. 	✓

Draft audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of London Borough of Brent on the pension fund financial statements of Brent Pension Fund

Opinion

We have audited the financial statements of Brent Pension Fund (the 'pension fund') administered by London Borough of Brent (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

Conclusions relating to going concern

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

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

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Authority, the Interim Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 71 to 72, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Interim Director of Finance. The Interim Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Interim Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

Draft audit opinion

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

Use of our report

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

[Signature]

Paul Dossett Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
London

[Date]



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