

# The Annual Audit Letter for London Borough of Brent

**Year ended 31 March 2019**

19 August 2019



# Contents

Section	Page
Executive Summary	3
Audit of the Financial Statements	5
Value for Money conclusion	11

**Appendices**

A Reports issued and fees

## Your key Grant Thornton team members are:



**Paul Dossett**  
**Key Audit Partner**

T: 020 7728 3180  
E: paul.dossett@uk.gt.com



**Sophia Brown**  
**Senior Manager**

T: 020 7728 3179  
E: Sophia.brown@uk.gt.com

# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at London Borough of Brent (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Standards Committee as those charged with governance in our Audit Findings Report on 10 July 2019.

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act).

Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two);
- assess the Council's arrangements for securing economy, efficiency; and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

## Our Work

---

### Materiality

We determined materiality for the audit of the Council's financial statements to be £20,000,000, which is approximately 1.85% of the Council's gross revenue expenditure.

---

### Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 18 July 2019.

---

### Whole of Government Accounts (WGA)

At the date of issuing our Annual Audit Letter, our work on the Council's Whole of Government Accounts Return is ongoing, however it will be completed by the mid-September deadline.

---

### Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

---

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £20,000,000, which is approximately 1.85% of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

No specific other materiality levels were set during the course of our audit.

We set a lower threshold of £1,000,000, above which we reported errors to the Audit and Standards Committee in our Audit Findings Report.

## The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We have undertaken additional testing on Property Plant and Equipment, and Pensions Liability which is detailed on pages 7 and 8.

We also read the remainder of the financial statements and Annual Governance Statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>We identified management override of controls as a risk requiring special audit consideration</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• evaluated the design effectiveness of management controls over journals;</li><li>• analysed the journals listing and determined the criteria for selecting high risk unusual journals;</li><li>• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration;</li><li>• gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence; and</li><li>• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>No issues were identified from the work performed in this area.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalue land and buildings on an annual basis to ensure that the carrying value is not materially different from the current value (or fair value for surplus and investment assets) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management have engaged the services of a valuer to estimate the appropriate values as at 31 March 2019.</p> <p>We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to the valuation experts and the scope of their work;</li><li>• evaluated the competence, capabilities and objectivity of the valuation expert;</li><li>• written to the valuer to confirm the basis on which the valuations were carried out;</li><li>• challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;</li><li>• used our own auditor's expert Gerald Eve to support challenge of management judgements on key movements;</li><li>• tested, on a sample basis, revaluations of the Council's operational properties, investment properties, and HRA properties during the year to ensure they have been input correctly into the Council's asset register and financial statements; and</li><li>• evaluated the assumptions made by management for any assets not revalued at 31 March 2019, including those in the HRA, and how management has satisfied themselves that the carrying value of these assets in the balance sheet is not materially different to their current value.</li></ul>	<p>We did not identify any significant matters as a result of our audit.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of Pension Fund net liability</b></p> <p>The Council's pension fund net liability, as reflected in the balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements and group accounts.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;</li><li>• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li><li>• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;</li><li>• assessed the accuracy and completeness of the information provided to the actuary to estimate the liability;</li><li>• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary; and</li><li>• confirmed the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within that report.</li></ul>	<p>Our audit work identified that the Council used the provisional figure for its pension fund net liability of £829.3m, issued by its actuary in January 2019, in compiling the draft statement of accounts (Note 8 Long term liabilities). The actuary's final report issued in May 2019 has a revised pension fund net liability of £918.7m. We understand the Council used provisional figures for the pension fund net liability in drafting its statement of accounts for early closedown. Where the year end actual figure is materially different to the provisional figure used we ask the Council to revise its position.</p> <p>The Court of Appeal ruled in December 2018 that there was age discrimination in the judges and firefighters pension schemes where there were transitional protections given to scheme members. This issue is also relevant to other public sector schemes such as as the Local Government Pension Scheme.</p> <p>The Government's application to the Supreme Court for permission to appeal was rejected in June 2019. As a consequence of the ruling, which occurred during the audit period in June, the Council were requested to review their accounting treatment for McCloud. It was at this point the Council commissioned their actuary to provide an estimate of the impact on the Council's IAS19 estimate. The estimate provided by the actuary was a potential increase in the pension liability of £7m which the Council amended in their accounts.</p>

# Audit of the Financial Statements

## Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b></p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions</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>Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019.</p>	<p>As part of our audit work we have:</p> <ul style="list-style-type: none"><li>• gained an understanding of the Fund's management processes for valuing Level 3 investments and evaluated the design of the associated controls;</li><li>• 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</li><li>• 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..</li></ul>	<p>No issues were identified from the work performed in this area.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 18 July 2019.

## Preparation of the financial statements

The Council's prepared its draft financial statements by 24 May 2019, almost a week earlier than the previous year. We worked closely with the finance team to ensure this first year audit went as smoothly as possible. With a good standard of working papers provided by the finance team and hard work on both sides we were able to achieve an early sign off date, 13 days before the statutory deadline.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Standards Committee on 10 July 2019. The key adjustments were reported within the Audit Findings Report presented to this Committee.

## Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of the London Borough of Brent Pension Fund on 18 July 2019 as well. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Standards Committee on 10 July 2019.

## Whole of Government Accounts (WGA)

At the date of issuing our Annual Audit Letter our work in this area is still outstanding, however this will be completed by the statutory deadline, which is in mid-September.

## Certificate of closure of the audit

We are unable to certify that we have completed the audit of the financial statements of London Borough of Brent until we complete our work on the WGA Return, as mentioned above.



# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

## Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

# Value for Money conclusion

## Value for Money Risks

### Risks identified in our audit plan    How we responded to the risk    Findings and conclusions

#### The risk as identified in our 2018/19 Audit Plan

The Authority has historically performed well at managing its financial position although reductions in funding and increasing demand for services has made this increasingly challenging.

The Authority is planning to make £40m savings over the next four years to balance the budget and is currently consulting on savings and income generation proposals to identify £20m of net expenditure reduction for the next two years.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2018/19.

#### Financial Sustainability

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- The Council's 2018/19 financial outturn;
- The robustness of the Council's 2019/20 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The level and stability of the Council's usable reserves.

#### 2018/19 outturn

The Council had a challenging year but was able to achieve a £2m underspend against the main General Fund revenue budget. This is an improvement on the position forecasted in previous periods and the position in previous years.

The use of CYP earmarked reserves illustrates that the Council does have ongoing financial pressures which need to be addressed. However, this needs to be put in the context of income growth opportunities in relation to an increasing council tax and business rates bases, and the strong position of the Council's reserves. Brent has over £368m of usable reserves which can ultimately be deployed to address in-year shortfall. To put this in further context, Brent Council could receive no RSG, council tax or business rates in 2019/20 and still balance the books using reserves. This is a much stronger position than virtually all other London boroughs. It is also worth noting that the Council is very clear about actively finding solutions in CYP.

#### 2019/20 Budget and beyond

The Council's MTFs assumes a £40m net expenditure reduction over next 4 years to balance the budget. If the £40m reduction is underestimated the Council may have to resort to 'core services' offer. Savings proposals of £26.2m were identified to be consulted with councilors and local residents, with £20m of savings required to balance budgets for 2019/20 and 2020/21. The budget for 2019/20 is based on the 2018/19 outturn. All savings have been separately identified and reported to ensure robustness of the 2019/20 budget. Over the decade to 2019/20 core funding will have fallen by 63% in real terms, LG revenue spending power will have fallen by 23%. At the same time, in London, population has risen by over 15%, more than double the rate elsewhere in England. Brent has a history of managing its finances well, delivering savings of £164m since 2010.

Overall the Council expects to overspend against the main 2019/20 General Fund budget by £0.2m..

The medium-term position for the Council is more uncertain. There is no confirmed Government funding plan in place for 2020/21 and beyond due to the impact of Brexit and of course now the Conservative Party leadership contest. Local Government funding is due to go undergo a significant shake up due to the impact of the business rate retention plan and the Fairer Funding Review.

The Brent response will continue to be focused on:

- Increasing council tax base growth and maximising referendum limits;
- Delivering savings and reshaping Children's services; and
- Increased focus on capital regeneration and associated income growth from business rates, fees and charges, etc.

# A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Reports issued

Report	Date issued
Audit Plan	February 2019
Audit Findings Report	July 2019
Annual Audit Letter	August 2019

## Fees<sup>1</sup>

	Planned £	Actual fees £	2017/18 fees £
Statutory audit	153,684	160,084	199,590
Audit of Pension Fund	16,170	16,170	21,000
Housing Benefit Grant Certification	20,000	TBC	22,410
<b>Total fees</b>	<b>189,854</b>	<b>TBC</b>	<b>243,000</b>

## Audit fee variation

As outlined in our audit plan, the 2018-19 scale fee published by PSAA of £153,684 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work. These are set out in the following table.

Also given we are yet to commence our work on the Certification of the Council's Housing Benefit Return, we are currently unable to confirm whether any additional fees will be charged in respect of this work.

## Additional Fees proposed

Area	Reason	Fee proposed
<b>Assessing the impact of the McCloud ruling – Main Accounts</b>	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we have reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	£2.4k
<b>Pensions – IAS 19</b>	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	£1.6k
<b>PPE Valuation – work of experts</b>	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	£2.4k
<b>Total</b>		<b>£6.4k</b>

# A. Reports issued and fees (continued)

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

## Audit Fees

	Proposed fee	Final fee
<b>Council Audit</b>	£153,684	£160,084
<b>Total audit fees (excluding VAT)</b>	<b>£153,684</b>	<b>£160,084</b>

## Additional Fees

Fees for other services	Proposed fee
<b>Audit related services</b>	
<b>Grants:</b>	
• Housing Benefit Subsidy return	£20,000
• Teachers' Pensions return	£3,000
• Pooling of Housing Capital Receipts return	£2,000
<b>Audit of subsidiaries:</b>	
• i4B Holdings Ltd audit	£27,000
• FWH Ltd audit	£25,000
	<b>£77,000</b>

## Non-audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The non-audit services listed are consistent with the Council's policy on the allotment of non-audit work to your auditor.

## Our commitment to our local government clients

- Senior level investment
- Local presence enhancing our responsiveness, agility and flexibility.
- High quality audit delivery
- Collaborative working across the public sector
- Wider connections across the public sector economy, including with health and other local government bodies
- Investment in Health and Wellbeing, Social Value and the Vibrant Economy
- Sharing of best practice and our thought leadership.
- Invitations to training events locally and regionally – bespoke training for emerging issues
- Further investment in data analytics and informatics to keep our knowledge of the areas up to date and to assist in designing a fully tailored audit approach



## Our relationship with our clients– why are we best placed?

- We work closely with our clients to ensure that we understand their financial challenges, performance and future strategy.
- We deliver robust, pragmatic and timely financial statements and Value for Money audits
- We have an open, two way dialogue with clients that support improvements in arrangements and the audit process
- Feedback meetings tell us that our clients are pleased with the service we deliver. We are not complacent and will continue to improve further
- Our locally based, experienced teams have a commitment to both our clients and the wider public sector
- We are a Firm that specialises in Local Government, Health and Social Care, and Cross Sector working, with over 25 Key Audit Partners, the most public sector specialist Engagement Leads of any firm
- We have strong relationships with CIPFA, SOLACE, the Society of Municipal Treasurers, the Association of Directors of Adult Social Care and others.

## New opportunities and challenges for your community

### The Local Government economy

Local authorities face unprecedented challenges including:

- Financial Sustainability – addressing funding gaps and balancing needs against resources
- Service Sustainability – Adult Social Care funding gaps and pressure on Education, Housing, Transport
- Transformation – new models of delivery, greater emphasis on partnerships, more focus on economic development
- Technology – cyber security and risk management
- At a wider level, the political environment remains complex:
- The government continues its negotiation with the EU over Brexit, and future arrangements remain uncertain.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in reaching our Value for Money conclusion.
- We will keep you informed of changes to the financial reporting requirements for 2019/20 through on-going discussions and invitations to our technical update workshops.

## Delivering real value through:

- Early advice on technical accounting issues, providing certainty of accounting treatments, future financial planning implications and resulting in draft statements that are 'right first time'
- Knowledge and expertise in all matters local government, including local objections and challenge, where we have an unrivalled depth of expertise.
- Early engagement on issues, especially on ADMs, housing delivery changes, Children services and Adult Social Care restructuring, partnership working with the NHS, inter authority agreements, governance and financial reporting
- Implementation of our recommendations have resulted in demonstrable improvements in your underlying arrangements, for example accounting for unique assets, financial management, reporting and governance, and tax implications for the Cornwall Council companies
- Robust but pragmatic challenge – seeking early liaison on issues, and having the difficult conversations early to ensure a 'no surprises' approach – always doing the right thing
- Providing regional training and networking opportunities for your teams on technical accounting issues and developments and changes to Annual Reporting requirements
- An efficient audit approach, providing tangible benefits, such as releasing finance staff earlier and prompt resolution of issues.

## Grant Thornton in Local Government

### Our client base and delivery

- We are the largest supplier of external audit services to local government
- We audit over 150 local government clients
- We signed 95% of our local government opinions in 2017/18 by 31 July
- In our latest independent client service review, we consistently score 9/10 or above. Clients value our strong interaction, our local knowledge and wealth of expertise.

### Our connections

- We are well connected to MHCLG, the NAO and key local government networks
- We work with CIPFA, Think Tanks and legal firms to develop workshops and good practice
- We have a strong presence across all parts of local government including blue light services
- We provide thought leadership, seminars and training to support our clients and to provide solutions

### Our people

- We have over 25 engagement leads accredited by ICAEW, and over 250 public sector specialists
- We provide technical and personal development training
- We employ over 80 Public Sector trainee accountants

### Our quality

- Our audit approach complies with the NAO's Code of Audit Practice, and International Standards on Auditing
- We are fully compliant with ethical standards
- Your audit team has passed all quality inspections including QAD and AQRT

### Our technical support

- We have specialist leads for Public Sector Audit quality and technical
- We provide national technical guidance on emerging auditing, financial reporting and ethical areas
- Specialist audit software is used to deliver maximum efficiencies





[grantthornton.co.uk](http://grantthornton.co.uk)

© 2019 Grant Thornton UK LLP.

'Grant Thornton' refers to the brand under which the Grant Thornton member firms provide assurance, tax and advisory services to their clients and/or refers to one or more member firms, as the context requires. Grant Thornton UK LLP is a member firm of Grant Thornton International Ltd (GTIL). GTIL and the member firms are not a worldwide partnership. GTIL and each member firm is a separate legal entity. Services are delivered by the member firms. GTIL does not provide services to clients. GTIL and its member firms are not agents of, and do not obligate, one another and are not liable for one another's acts or omissions.