External Audit Plan

Year ending 31 March 2020

London Borough of Brent

London Borough of Brent Pension Fund

February 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of London Borough of Brent ('the Authority') and the statutory audit of London Borough of Brent Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the 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 audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the Authority. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Authority and Group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and
- Value for Money arrangements in place at the Authority for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit and Standards Committee of your responsibilities. It is the responsibility of the Authority to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Authority is fulfilling these responsibilities.

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

Group accounts	The Authority is required to prepare group financial statements that consolidate the financial information of Barham Park Trust, First Wave Housing, i4B Holdings Ltd and LGA Digital Services.
Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: **London Borough of Brent** • Management override of controls • Valuation of land and buildings • Valuation of net pension fund liability **London Borough of Brent Pension Fund** • Management override of controls • Valuation of Level 3 investments We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality - Authority	We have determined planning materiality to be £16.7m (PY £20m) for the Group and £16.6m (PY £20m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.8m (PY £1m).
Materiality - Pension Fund	We have determined planning materiality to be £8m (PY £8m), which equates to 1% of your net assets from the previous financial year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.4m (PY £0.6m).

1. Introduction & headlines - continued

Value for Money arrangements	Our risk assessment regarding your arrangements to secure value for money have identified the following VFM significant risks: • Financial outturn and sustainability • Capital programme funding
Audit logistics	Our interim visits will take place in January and March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be £183,684 (PY: £160,084) for the Authority and £25,000 (PY: £16,170) for the Pension Fund, subject to the Authority and the Pension Fund meeting our requirements set out on pages 17 to 19.
Independence	We have complied with 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.

2a. Key matters impacting our audit for the Authority

External Factors

The wider economy and political uncertainty

Local Government funding continues to be stretched with increasing cost pressures and demand from residents. The Authority has a history of managing its finances well. Since 2010 the Authority has had to deliver savings of £174m, including an additional £7.4m in 2020/21 and £6.1m between 2021/22 and 2022/23. The Authority is forecasting to breakeven for 2019/20 despite significant pressures in Children's and Young People.

At a national level, the government continues its negotiation with the EU over Brexit, and future arrangements remain clouded in uncertainty. The Authority will need to ensure that it is prepared for all outcomes, including in terms of any impact on contracts, on service delivery and on its support for local people and businesses.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix A.

Our work in 2018/19 highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved, with a corresponding increase in audit procedures. We have also identified an increase in the complexity of local government financial transactions which require greater audit scrutiny.

Implementation of IFRS 16 – Leases

The implementation of IFRS 16 is delayed in the public sector until 1 April 2020. There will therefore be disclosure requirements that apply in 2019/20 for standards issued but not yet adopted.

The current distinction between operating and finance leases is removed for lessees and all leases will be recognised on the balance sheet of lessees as a right of use asset and a liability to make the lease payments, subject to the adaptations for short term leases and exceptions for leases of low value assets.

Our response

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 consider whether your financial position leads to material uncertainty about the going concern of the Authority and will review related disclosures in the financial statements.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee is set further in our Audit Plan, and is subject to PSAA agreement.

We will have regular dialogue with finance officers and consider the impact of any proposed changes on our audit strategy. We will ensure that any proposed changes are considered early to minimise impact on the year end audit process.

We will assess the adequacy of your disclosure about the financial impact of implementing IFRS 16 – Leases from 1 April 2020 and test a sample of lease obligations to determine whether they have been accounted for appropriately under the new requirements.

2b. Key matters impacting our audit for the Pension Fund

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these but have 74% of the members.
- The UK has left the EU on 31 January 2020. The economic impact of this remains uncertain as is the wider global economic picture. The Pension Fund will need to ensure that it's investment strategy has considered potential outcomes.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

- The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix A.
- Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

Our response

We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.

We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee is set further in our Audit Plan, and is subject to PSAA agreement.

3. Group audit scope and risk assessment

In accordance with ISA (UK) 600, as group auditor we are required to obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the Group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

Component	Individually Significant?	Audit Scope	Risks identified	Planned audit approach
London Borough of Brent	Yes		See pages 8 to 9	Full scope UK statutory audit performed by Grant Thornton UK LLP
i4B Holdings Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
First Wave Housing	No		None	Analytical review performed by Grant Thornton UK LLP
Barham Park Trust	No		None	Analytical review performed by Grant Thornton UK LLP
LGA Digital Services	No		None	Analytical review performed by Grant Thornton UK LLP

Audit scope

- **Audit of the financial information of the component using component materiality**
- **Analytical procedures at group level**

4. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in revenue and expenditure recognition	**Authority and the Pension Fund**	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. Having considered the risk factors set out in ISA (UK) 240, and the nature of the revenue streams at the Authority, we have 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; and • the culture and ethical frameworks of local authorities, including the London Borough of Brent and its Pension Fund, mean that all forms of fraud are seen as unacceptable. Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom (PN10) further states: "As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition". Public sector auditors therefore need to consider whether they have any significant concerns about fraudulent financial reporting of expenditure which would need to be treated as a significant risk for the audit. We have assessed the significant expenditure streams of the Authority and the risk of material misstatement arising from inappropriate expenditure recognition has a low likelihood of occurrence and is unlikely to be of a size which would be material to the users of the financial statements.	Therefore, we do not consider this to be a significant risk for the Authority and the Pension Fund.

4. Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management override of controls	**Authority and the Pension Fund**	Under ISA (UK) 240, there is a non-rebuttable presumed risk that the risk of management override of controls is present in all entities. The Authority and the Pension Fund face external scrutiny of its spending 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 for both the Group/Authority and Fund, which was one of the most significant assessed risks of material misstatement.	We will: • Evaluate the design effectiveness of management controls over journals; • Analyse the journals listing and determine the criterial for selecting high risk and unusual journals; • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Valuation of land and buildings	**Authority**	The Authority re-values its land and buildings on a five-yearly rolling basis to ensure that carrying value is not materially different from fair value. This represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1,401m) and the sensitivity of the estimate to changes in key assumptions.
		
		Additionally, management will need to ensure the carrying value of assets not revalued as at 31 March 2020 in the Authority's financial statements is not materially different from the current value at the financial statements date, where a rolling programme is used.
		
		We identified the 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, and a key audit matter.
			We will:
			• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
			• Evaluate the competence, capabilities and objectivity of the valuation expert;
			• Discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out;
			• Engage our own valuer expert, Gerald Eve, to provide commentary on:
			    • the instruction process in comparison to requirements from CIPFA/ IFRS / RICS; and
			    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points;
			• Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
			• Test revaluations made during the year to see if they had been input correctly into the Authority's asset register; and
			• Evaluate the assumptions made by the management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

4. Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	**Authority**	The pension fund net liability, as reflected in the Authority's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£925.7m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • Update our understanding of the processes and controls put in place by management to ensure that the Authority's pension funs net liability is not materially misstated and evaluate the design of the associated controls; • Evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • Assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation; • Assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability; • Test 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 • Undertake procedures to confirm 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 the report.

4. Significant risks identified

Risk	Risk related to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of Level 3 investments	**Pension Fund**	The Fund re-values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. 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 (£95m) and the sensitivity of this estimate to changes in key assumptions. 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. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	We will: • Evaluate management's processes for valuing Level 3 investments; • Review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments, to ensure that the requirements of the Code are met; • Independently request year-end confirmations from investment managers and custodian; • For a sample of investments, test the valuation by obtaining and reviewing the audited accounts (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. We will reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; • In the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; and • Where available, we will review investment manager service auditor reports on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

5. Other risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)	**Authority**	The public sector will implement this standard from 1 April 2020. It will replace IAS 17 Leases, and the three interpretations that supported its application (IFRIC 4 Determining whether an arrangement contains a lease; SIC-15 Operating Leases – Incentives; and SIC-27 Evaluating the substance of transactions Involving the legal form of a lease). Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. In accordance with IAS 8 and paragraph 3.3.4.3 of the Code, disclosures of the expected impact of IFRS 16 should be included in the Authority's 2019/20 financial statements. The Code adapts IFRS 16 and requires that the subsequent measurement of the right of use asset, where the underlying asset is an item of property, plant and equipment, is measured in accordance with section 4.1 of the Code.	We will: • Evaluate the processes the Authority has adopted to assess the impact of IFRS16 for its 2020/21 financial statements, and whether the estimated impact on assets, liabilities and reserves has been disclosed in the 2019/20 financial statements. • Assess the completeness of the disclosures made by the Authority in its 2019/20 financial statements with reference to the Code and CIPFA/LASAAC Local Authority Leasing Briefings.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

6a. Other matters for the Authority

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and consistent with our knowledge of the Authority.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with the guidance issued by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under the Local Audit and Accountability Act 2014 (the Act) and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements;
    - Issue of a report in the public interest or written recommendations to the Authority under section 24 of the Act, copied to the Secretary of State;
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 Group's ability to continue as a going concern” (ISA (UK) 570). We will review management's assessment of the going concern assumption and material uncertainties, and evaluate the disclosures in the financial statements.

6b. Other matters for the Pension Fund

Other work

The Pension Fund is administered by London Borough of Brent (the 'Authority'), and the Pension Fund's accounts form part of the Authority's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Authority's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State;
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the Pension Fund financial statements included in the Pension Fund Annual Report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

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 Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

7. Materiality

The concept of 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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

The Authority

We have determined financial statement materiality based on a proportion of the gross expenditure of the Group and Authority for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.7m (PY £20m) for the Group and £16.6m (PY £20m) for the Authority, which equates to 1.5% of your prior year gross expenditure for the year. The reduction in materiality compared to the previous year reflects the higher profile of local audit following external reviews such as those led by Sir John Kingman and Sir Tony Redman. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.83m for Senior Officer Remuneration and Related Parties.

The Pension Fund

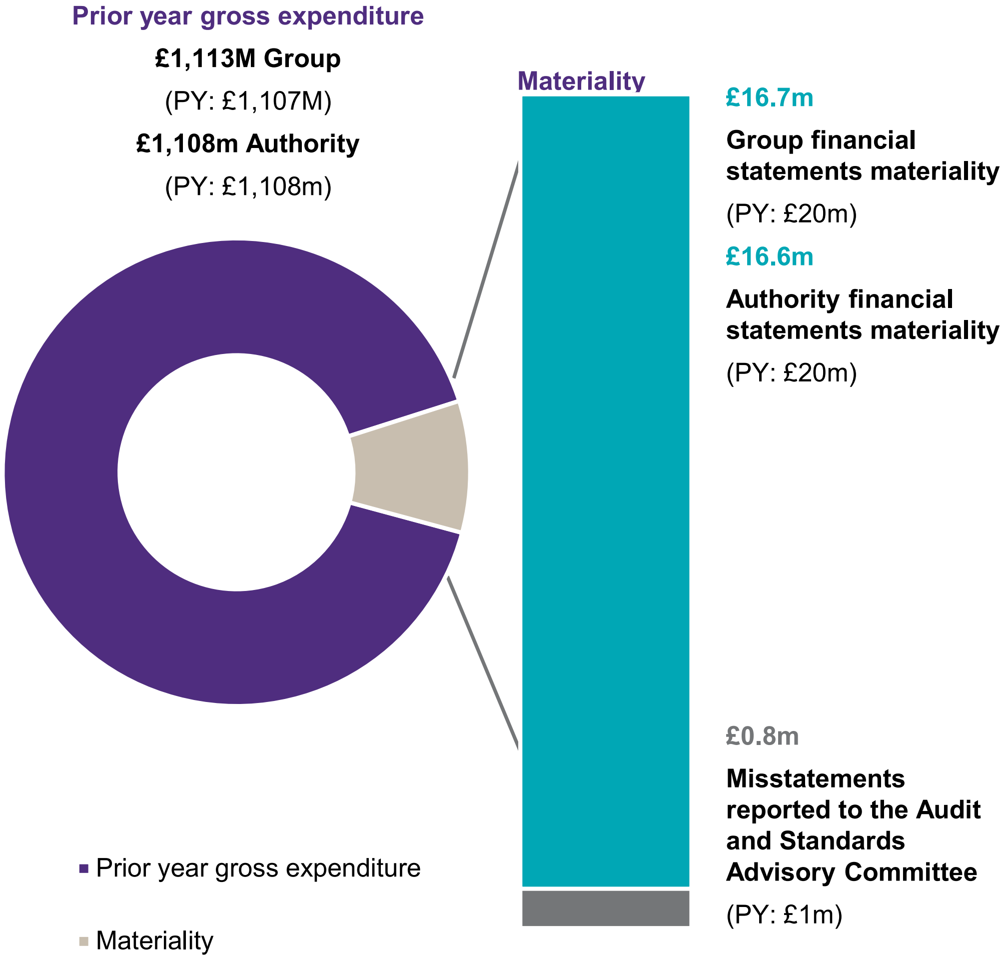
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £8m (PY £8m) for the Pension Fund, which equates to 1% of your prior year net assets for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to relate to transactions with members, with materiality to be set at £0.4m.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit and Standards 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 and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Group and Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m (PY £1m). In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.4m (PY £0.4m).

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



8. Value for Money arrangements

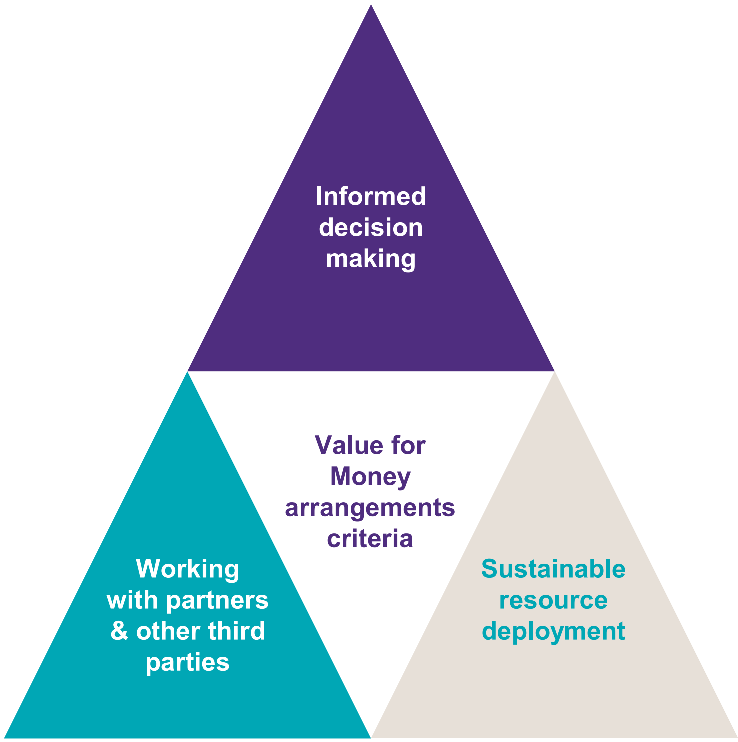
Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single 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."

This is supported by three sub-criteria, as set out below:



Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.

Financial outturn and sustainability

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

The Authority's proposals in its budget for 2021/21 enable the setting of a balanced budget and set the business plans for 2021/22 and 2022/23, whilst giving some protection to front line services and investing in key projects and priorities. The future funding gap, estimated at £6.1m for 2021/22 and 2022/23, demonstrates the difficult service decisions ahead as central government funding reductions continue to reduce the resources available to meet increasing service demands.

We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2019/20. We will also review the Authority's reserves position.

Capital programme funding

The Authority has an extensive capital programme to invest nearly £780m over 5 years, including significant spend across the GF and HRA to support its strategic vision. Until recently the Authority has utilised internal cash resources to fund the capital programme in lieu of borrowing. Looking ahead, borrowing will be undertaken for specific schemes and prioritised where it can have a net positive impact on the revenue budget and there is a clear capital repayment plan. Over the next 5 years the Authority will require over£470m of borrowing to fund the capital programme, of which the interest costs will be charged to the revenue capital financing budget.

We will consider how the Authority is monitoring its levels of borrowings to meet its capital plans.

9. Audit logistics & team

Paul Dossett, Partner

Engagement lead, for the Authority and the Fund, and leads the work performed on the audit. Signs the audit opinion and holds regular meetings with senior officers.

Sophia Brown, Senior Audit Manager (Authority)

Engagement manager responsible for the overall management of the Authority's audit; consideration of VFM work, quality assurance of audit work and outputs.

Liulu Chen, Audit Manager (Pension Fund)

Engagement manager responsible for the overall management of the Pension Fund audit; quality assurance of audit work and outputs.

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement;
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you;
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples;
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit; and
- respond promptly and adequately to audit queries.

10. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, and is subject to PSAA agreement.

	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
London Borough of Brent Audit	£199,590	£160,084	£184,184
Pension Fund Audit	£21,000	£16,170	£25,000
Total audit fees (excluding VAT)	**£220,590**	**£176,254**	**£209,184**

Assumptions:
In setting the above fees, we have assumed that the Authority and the Pension Fund will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit;
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements; and
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – Further analysis for the Authority

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

Audit area	£	Rationale for fee variation
Scale fee	153,684	Fee as per PSAA for 2019/10
Raising the bar	10,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits – as outlined earlier in the Plan, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.
Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19	4,000	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.
PPE valuation – work of experts	9,500	We have engaged our own audit expert and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We estimate that the cost of the auditor's expert will be in the region of £5,000.
Group accounts	4,000	Further guidance from the FRC and other parties mean we are required to do more work to analyse how Group components are audited and more detailed testing and review of Group transactions is required.
New standards – IFRS 16	3,000	Whilst IFRS16 is only formally adopted from 1 April 2020, local authorities will be required to make an assessment of the potential impact of the new Standard for in this year's financial statements. Therefore additional work will be needed as part of this year's audit to ensure the reasonableness and appropriateness of this disclosure.
Revised scale fee (to be approved by PSAA)	**£184,184**	

Audit fee variations – Further analysis for the Pension Fund

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	16,170	Fee as per PSAA for 2019/20
Raising the bar	4,830	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of Level 3 investments	4,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of Level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	**25,000**	

11. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 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.

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 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Authority. The following other services were identified:

Service	£	Threats	Safeguards
Audit related:			
Certification of Housing capital receipts grant	4,000 (TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £184,184 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Teacher's pension grant	5,000 (TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £184,184 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Subsidy	25,000 plus £800 per diem rate for additional work, if required (TBC)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £184,184 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

11. Independence & non-audit services

Service	£	Threats	Safeguards
Audit related:			
I4B Holdings Ltd audit	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £27,000 in comparison to the total fee for the audit of £183,684 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
First Wave Housing Ltd audit	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £183,684 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Objection to the 2019/20 accounts	TBC	None identified	

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Group's policy on the allotment of non-audit work to your auditors. All services have been approved by the Director of Finance. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets authority of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local authority financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

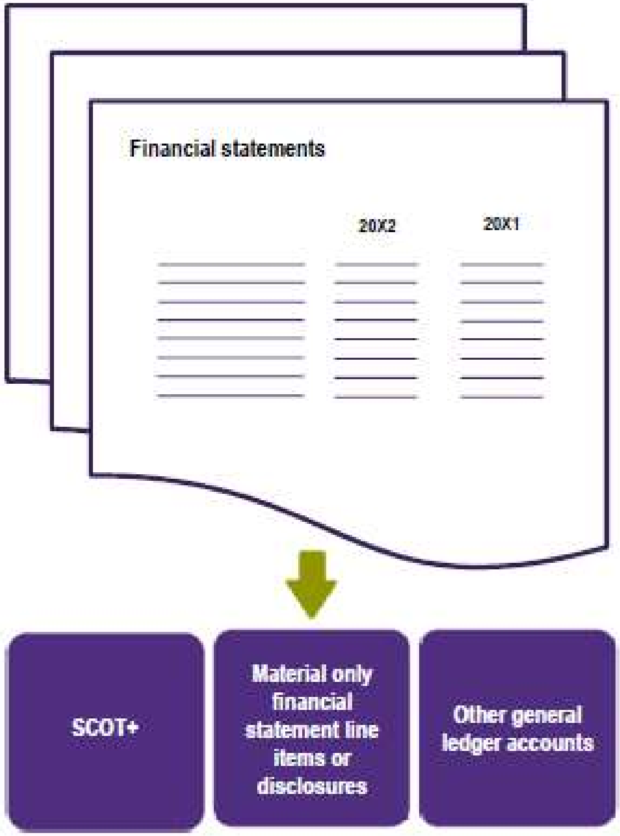
What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

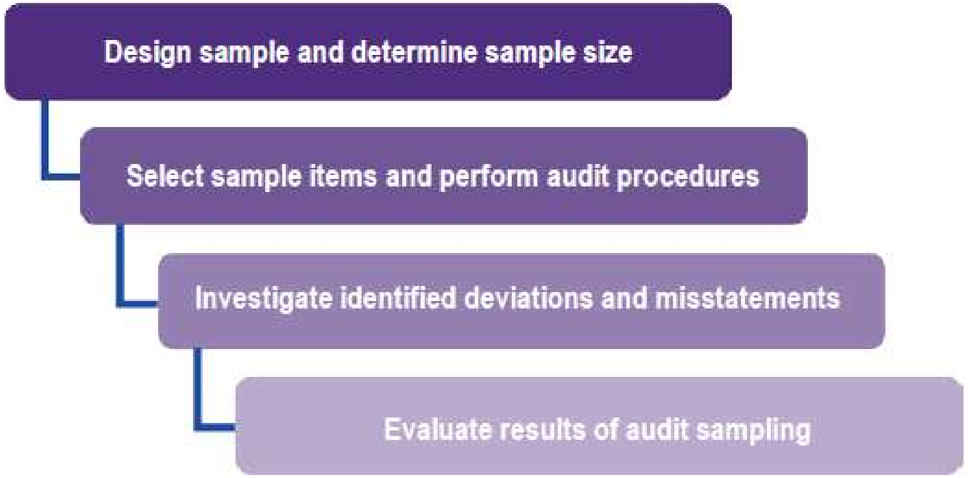
Appendix B: Scoping the audit



Scoping the audit typically starts by considering financial statement line items and disclosures. It involves identifying classes of transactions, account balances, and disclosures that will be subjected to audit procedures. The following are in scope:

- Significant classes of transactions, account balances, and disclosures (SCOT+), which are associated with risks of material misstatement
- Material only financial statement line items or disclosures not associated with any SCOT+; other than size, no risk factors or other conditions are present to suggest a risk of material misstatement
- Other general ledger accounts not associated with a SCOT+ or with a material only financial statement line item or disclosure.

Appendix C: Audit sampling overview



Audit sampling is the application of audit procedures to less then 100% of the items within a population of audit relevance such that all sampling units have a chance of selection to provide a reasonable basis on which to draw conclusions about the entire population. Audit sampling can be applied using either statistical or non-statistical sampling approaches.

Audit sampling involves:

- Designing the sample and determining the sample size;
- Selecting sample items for testing and performing audit procedures on selected items;
- Investigating deviations and misstatements identified from audit sampling; and
- Evaluating results of audit sampling.

Appendix C: Audit sampling overview

Key terms	
Anomalies	Anomalies may be excluded when projecting misstatements. However, the effect of such misstatement, if uncorrected, is considered in addition to the projected non-anomalous misstatements.
Haphazard selection	The sample is selected without following a structured technique. Although no structured technique is used, conscious bias or predictability is avoided. Haphazard selection is not appropriate when using statistical sampling.
Misstatement	A difference between the reported amount, classification, presentation, or disclosure of a financial statement line item and the amount, classification, presentation, or disclosure that is required for the item to be in accordance with the financial reporting framework
Monetary unit sampling	The percentage of misstatement in the sample item represents the percentage of misstatement or tainting for the whole sampling interval. The projected misstatements for all sampling intervals are added to calculate the total factual and projected misstatement for the population. Significant or large understatements may lead to invalid or inconclusive projections.
Non-sampling risk	The risk that an erroneous conclusion is reached for any reason not related to sampling risk (for example, the use of inappropriate audit procedures, or the misinterpretation of audit evidence and failure to recognize a misstatement or deviation)
Non-statistical sampling	The ratio method is used to project misstatements. So, the projected misstatement is based on the misstatement rate observed in the population.
Population	The entire set of data from which a sample is selected and about which conclusions are to be drawn
Random selection	Random number generators or random number tables are used to select sample items.
Sampling risk	The risk that the conclusion based on a sample may be different from the conclusion if the entire population were subjected to the same audit procedure (for example, the conclusion that a control is effective when in fact it is not or that a misstatement does not exist when in fact it does)
Sampling unit	The individual items constituting the population (that is, each sampling unit constitutes one item in the population) (that is, each sampling unit constitutes one item in the population, such as a physical item, a transaction, an individual monetary amount, or the occurrence of the operation of a control)
Stratification (non-statistical sampling)	The ratio method is used to project misstatements for each group or strata separately. The projected misstatement is the sum of the individually projected amounts for each group or strata.
Systematic selection	The number of sampling units within the population is divided by the sample size to give a sampling interval, which is used to select the sampled items from a starting point. The starting point may be determined haphazardly or by using random number generators or random number tables. MUS applies systematic selection. In MUS, a random number between one and the sampling interval, inclusive, is selected as the random start. The first sampling unit selected is the one that contains the monetary amount corresponding to the random start. Each sampling unit thereafter is selected by adding the sampling interval.
Tolerable misstatement	A monetary amount in respect of which an appropriate level of assurance is sought that such monetary amount is not exceeded by the actual misstatement in the population. It is the application of performance materiality (QRG 3 – 02) to a particular sampling procedure, and it may be the same amount or an amount lower than performance materiality.

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