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Audit and Standards Advisory Committee

Wednesday 11 March 2020 at 6.00 pm
Boardrooms 1&2 - Brent Civic Centre, Engineers Way, Wembley HA9 0FJ

Membership:

Members
Mr David Ewart (Chair)

Councillors:

A Choudry (Vice-Chair)
Donnelly-Jackson
Hassan
Long
Naheerathan
Nerva
Kansagra

Independent Members
Robert Cawley
Karen McArthur
Margaret Bruce

Independent Advisor
Vineeta Manchanda

Substitute Members

Councillors:

S Choudhary, Colacicco, Kabir, Lo and Perrin

Councillors:

Colwill and Maurice

For further information contact: Kunwar Khan, Governance Officer, Tel: 020 8937 2037; Email: kunwar.khan@brent.gov.uk

For electronic copies of minutes, reports and agendas, and to be alerted when the minutes of this meeting have been published visit: **www.brent.gov.uk/committees**

The press and public are welcome to attend this meeting

<u>Notes for Members - Declarations of Interest:</u>

If a Member is aware they have a Disclosable Pecuniary Interest* in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent and must leave the room without participating in discussion of the item.

If a Member is aware they have a Personal Interest** in an item of business, they must declare its existence and nature at the start of the meeting or when it becomes apparent.

If the Personal Interest is also significant enough to affect your judgement of a public interest and either it affects a financial position or relates to a regulatory matter then after disclosing the interest to the meeting the Member must leave the room without participating in discussion of the item, except that they may first make representations, answer questions or give evidence relating to the matter, provided that the public are allowed to attend the meeting for those purposes.

<u>*Disclosable Pecuniary Interests:</u>

(a) **Employment, etc. -** Any employment, office, trade, profession or vocation carried on for profit gain.

(b) **Sponsorship -** Any payment or other financial benefit in respect of expenses in carrying out duties as a member, or of election; including from a trade union.

(c) **Contracts -** Any current contract for goods, services or works, between the Councillors or their partner (or a body in which one has a beneficial interest) and the council.

(d) **Land -** Any beneficial interest in land which is within the council's area.

(e) **Licences-** Any licence to occupy land in the council's area for a month or longer.

(f) **Corporate tenancies -** Any tenancy between the council and a body in which the Councillor or their partner have a beneficial interest.

(g) **Securities -** Any beneficial interest in securities of a body which has a place of business or land in the council's area, if the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body or of any one class of its issued share capital.

<u>Personal Interests:</u>**

The business relates to or affects:

(a) Anybody of which you are a member or in a position of general control or management, and:

- to which you are appointed by the council;
- which exercises functions of a public nature;
- which is directed is to charitable purposes;
- whose principal purposes include the influence of public opinion or policy (including a political party of trade union).

(b) The interests a of a person from whom you have received gifts or hospitality of at least £50 as a member in the municipal year;

or

A decision in relation to that business might reasonably be regarded as affecting the well-being or financial position of:

- you yourself;
- a member of your family or your friend or any person with whom you have a close association or any person or body who is the subject of a registrable personal interest.

Agenda

Introductions, if appropriate.

Item		Page
1	**Apologies for absence and clarification of alternate members**	
2	**Declarations of Interest** Members are invited to declare at this stage of the meeting, the nature and existence of any relevant disclosable pecuniary or personal interests in the items on this agenda and to specify the item(s) to which they relate.	
3	**Deputations (if any)** To hear any deputations received from members of the public in accordance with Standing Order 67.	
4	**Minutes of the previous meeting** To approve the minutes of the previous meeting as a correct record.	1 - 10
5	**Matters arising (if any)** To consider any matters arising from the minutes of the previous meeting.	
	Standards Items (None)	
	Audit Items	
6	**Draft Internal Audit and Investigations Annual Plan** This report sets out the draft Internal Plan for 2020/21 and the basis on which the plan has been prepared. **Wards Affected:** All wards **Contact Officer:** Michael Bradley Head of Audit and Investigations Email: Michael.Bradley@brent.gov.uk Tel: 0208 937 6526	11 - 24
7	**External Audit Progress Report and Sector Update** The paper provides the Audit and Standards Advisory Committee with a report on progress in delivering Grant Thornton's responsibilities as the Council's external auditors. It also includes a summary of emerging	25 - 42

national issues and developments that may be relevant to Brent as a local authority.

Wards Affected:	**Contract person:**
All wards	Sophia Brown Senior Manager, Grant Thornton Email: Sophia.Y.Brown@uk.gt.com Tel: 020 7728 3179

8 External Audit Plan 43 - 70

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

Wards Affected:	**Contract person:**
All wards	Sophia Brown Senior Manager, Grant Thornton Email: Sophia.Y.Brown@uk.gt.com Tel: 020 7728 3179

9 Accounting Policies 71 - 86

The council is required to adopt accounting policies each year to set out how the Statement of Accounts will be produced. This paper provides the proposed Accounting Policies for the production of the 2019/20 Statement of Accounts.

Ward Affected:	**Contact Officer**:
All wards	Ben Ainsworth, Head of Finance Email: Benjamin.ainsworth@brent.gov.uk Tel: 020 8937 1731

10 Forward Plan and agenda for the next meeting 87 - 88

To note the Committee’s Forward Plan and draft agenda items for the next meeting.

Wards Affected:	**Contact officer:**
All wards	Kunwar Khan Governance Officer Email: Kunwar.Khan@brent.gov.uk Tel: 020 8937 2037

11 Any other urgent business

Notice of items to be raised under this heading must be given in writing to the Head of Executive and Member Services or his representative before the meeting in accordance with Standing Order 60.

Date of the next meeting: **Monday 20 April 2020**

- Please remember to ***SWITCH OFF*** your mobile phone during the meeting.
- The meeting room is accessible by lift and seats will be provided for members of the public.

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Brent

MINUTES OF THE AUDIT AND STANDARDS ADVISORY COMMITTEE
Monday 20 January 2020 at 6.00 pm

PRESENT: David Ewart (Chair) Councillor A Choudry (Vice-Chair) and Councillors Donnelly-Jackson, Long, Nerva, Kansagra and S Choudhary (substituting for Councillor Hassan)

Independent (co-opted) Members: Margaret Bruce
Independent Advisor: Vineeta Manchanda

Also Present: Councillor Margaret McLennan (Deputy Leader and Lead Member for Resources, Brent Council)

1. **Apologies for Absence and Clarification of Alternate Members**

The following apologies for absence were received:

- Councillors Hassan (substituted by Councillor S Choudhary) and Naheerathan
- Dr Rob Cawley (Independent co-opted Member)
- Karen McArthur (Independent co-opted Member)

2. **Declarations of Interest**

In relation to agenda items 7, Member Learning & Development and Member Expenses, Councillors Donnelly-Jackson and Nerva declared a personal interest. Councillor Donnelly-Jackson clarified that she attended a one-to-one session instead of group training.

3. **Deputations (if any)**

None.

4. **Minutes of the Previous Meeting**

RESOLVED:

The minutes of the Audit and Standards Advisory Committee (ASAC) held on 26 September 2019 be approved as an accurate record.

5. **Matters Arising (if any)**

None.

6. **Quarterly Update on Standards, including Gifts and Hospitality**

Debra Norman, Director of Legal, HR, Audit and Investigations, Brent Council introduced the report.

The report updated the Audit and Standards Advisory Committee on gifts and hospitality registered by Members, the attendance record for Members in relation to mandatory training sessions and two recent cases reported in the media involving general councillor conduct.

A list of gifts and hospitality registered by Members from 26 June to 20 December 2019 was attached at Appendix A, and a summary of Member Mandatory Training Non-Attendance Record as at January 2020 was attached as Appendix B of the report, along with the covering report.

In considering the report and during the discussion, the following key points were noted:

- A former councillor was involved in a civil case as reported in the update. This matter would have been a standards issue had the person still been a councillor.

- It was a matter of common sense and moral judgement whether to accept gifts. Members were required to register gifts and hospitality received in an official capacity worth an estimated value of at least £50. This included a series of gifts and hospitality from the same person or source that add up to an estimated value of at least £50 in a municipal year. Gifts and hospitality received by Members were published on the Council's website and open to inspection at Brent Civic Centre.

- In respect of mandatory training, the Chair reminded that this was essentially a matter in the purview of political groups - their leadership and Group Whips - as they had the responsibility to inform, encourage attendance, raise awareness and to hold their members to account.

- Councillor Donnelly-Jackson stated that councillors working during the week would find it difficult to attend various sessions and there was no alternative weekend option. Debra Norman informed that more online training options were being considered and would be available to make it easier for members to complete relevant training online and at their convenience.

RESOLVED that the Committee noted the contents of the report.

7. **Member Learning & Development and Member Expenses**

Thomas Cattermole, Head of Executive and Member Services, introduced the report to provide a summary of the Member Development Programme and information regarding the Members' Expenses Scheme. The report, together with its six appendices, provided information about the member learning and development sessions delivered since March 2019, and an overview of upcoming member learning and development sessions. The report also provided an outline of the Member induction programme to be delivered after the by-elections on 23 January 2020.

In considering the report and during the discussion, the following key points were noted:

- Six appendices of the report numbered 1 - List of sessions 2019/2020, 2 - Attendance at internal training events, 3 - Attendance at external training events, 4 - Induction training for the newly elected Members, 5 - LB Brent Charter Plus Action Plan and 6 - Member Expenses, 2018-2019 covered the detailed information.

- Equalities and Relations was the best non-mandatory session attended. There would be a re-run of the mandatory training sessions during the January induction period so members would have further opportunities to attend.

- The Committee agreed that the excel sheet providing the membership attendance record could be improved with better headings, more clarity and with the header repeated, when appropriate, on each page.

- The Committee agreed that there needed to be a process to record training undertaken but not provided, funded, facilitated or registered by Brent Council.

- Congratulations were conveyed on achieving the Gold Standard for Member Development. The Council was initially re-assessed for Charter Plus in December 2018. The assessors confirmed that Brent Council had achieved and continued to meet the Charter Plus standard of the London Charter for Elected Member Development. The Council was awarded Charter Plus status – now Brent had the Gold Standard for three years from 10 December 2018.

RESOLVED that the Committee noted the work being undertaken by the Member Learning and Development Steering Group in ensuring effective training and development for elected representatives of Brent that responded to the Council's corporate priorities as well as councillors' individual training needs.

8. **Review of the Use of RIPA Powers**

Debra Norman, Director of Legal, HR, Audit and Investigations, Brent Council introduced the report providing an update to the Council's policy in relation to the Regulation of Investigatory Powers Act 2000 (RIPA). Appendix A contained proposed changes to RIPA.

In accordance with paragraph 4.47 of the Covert Surveillance and Property Interference Code, Councillors had a formal scrutiny role in relation to RIPA and should regularly review the authority's use of RIPA. Accordingly, it was decided that this Committee should conduct a high-level annual review. Any significant policy changes recommended by the Committee arising from its review to be reported to Cabinet for decision.

The report explained the Council's use and conduct of surveillance techniques in accordance with the Regulation of Investigatory Powers Act (RIPA) 2000; notified the Committee of the pending Investigatory Powers Commissioner's Inspection and requests. Members noted the changes to the policies on RIPA - Appendix A to the report listed the key changes, which had been inserted into the RIPA policy and procedures and would be submitted to the Cabinet for approval.

The Committee noted a further paper updating the members on the RIPA inspection would be presented to the ASAC at its April 2020 meeting.

RESOLVED that the Committee noted:

1. The contents of this report and the changes to the Council's policies on:
    - 1a) Directed Surveillance and Covert Human Intelligence Sources;
    - 1b) the Acquisition and Disclosure of Communications Data.

2. The updated policies and procedures on RIPA were to be approved by Cabinet on 9 March 2020.

9. **Internal Audit Quarterly Update - Internal Audit Progress Report for September - December 2019**

Michael Bradley, Head of Audit and Investigations, introduced the report providing an update on progress against the Internal Audit Plan for the period 1 September 2019 to 31 December 2019.

The report contained the latest information about internal audit performance, audit work undertaken, schools, customer satisfaction and follow up reviews.

In considering the report and during the discussion, the following key points were noted:

Appendix A of the report covered the Completed Audits for the period September to December 2019, Appendix B of the report covered the Audit Current Status and Appendix C of the report contained the breakdown of Follow up Reviews.

The Chair highlighted that the focus was on high-risk areas and noted the progress was being made. He requested more assurance about high risks concerning i4B and IT licensing expenditure. In relation to procurement matters identified on page six of the report, the Chair asked for an update at a future meeting. With regard to high risks identified around 'Oracle payroll agent's management access controls were not robust' and 'discrepancies identified in payments bank account reconciliation', the Chair requested a direct update for members. Paul Dossett, Partner, Grant Thornton, external auditors, commented that this would be a timely discussion as cash transactions could benefit from more oversight.

As the discussion turned to Brexit planning, it was noted that a lot of excellent work had already been done. A Member stated that further work around awareness and implication for Brent due to No Deal Brexit after the cut off period would be very useful particularly around the impact on service delivery owing to the curtailment of early freedom of movement.

A member commented that the risks around Licensing of Landlords would be viewed as high risks instead of low or medium risks. Michael Bradley undertook to convey this to the service.

RESOLVED that the Committee noted the content of the report.

10. **Counter Fraud Quarterly Update**

Michael Bradley, Head of Audit and Investigations, introduced the report setting out the counter fraud activity for this year up to Quarter 3, 2019/20.

- Table A of the report on page 64 summarised the internal fraud performance.
- Table B of the report encapsulated Tenancy and Social Housing Fraud.
- Table C of the report addressed the External Fraud element.
- Paragraphs 3.16 to 3.18 covered the Proactive / Other Counter Fraud activity

The effective work around Blue Badge was appreciated by the members that involved a further three Blue Badge operations during Q2 and Q3 in Kingsbury and Wembley locations. 146 badges were checked, 15 cases identified as fraud / misuse and 22 Penalty Charge Notices issued.

The Chair thanked Michael Bradley and his team for their continued work and update reports relating to internal audit and counter fraud.

RESOLVED that the Committee noted the counter fraud work in the period of this report.

11. **Emergency Planning Resilience - Peer Review**

Daryl Jooste, Civil Contingencies Manager, Brent Council, introduced the report outlining the progress made since the 2019 report, detailing the type and number of incidents in Brent and provided some information around initiatives and programmes of work underway to enhance our resilience and response arrangements.

The Committee noted that, following several major emergencies affecting London and putting the London Resilience Partnership under considerable strain during 2017, London Councils commissioned an independent peer challenge that took place in early 2018, focusing on the extent to which Boroughs' collaborative resilience arrangements continued to provide assurance. The London Resilience Forum (LRF) and the Local Authorities' Panel (LAP) were overseeing the recommendations.

Members noted that the previous standards used were the Minimum Standards for London (MSL), comprising of sixteen (16) standards designed to support the London Local Authority Gold (LLAG) arrangements. It was recommended that the Minimum Standards for London, which were introduced in 2007 to ensure a baseline standard of resilience planning across London local authorities, be replaced. A resultant outcome of the review was the new Resilience Standards for London (RSL) were officially launched in 2019 and all 33 London Councils would be undertaking a self-assessment on an annual basis using the new Resilience Standards for London. The self-assessment was an important improvement tool for the Council and its stakeholders as an accurate and honest representation as to how the Council was currently performing.

The Committee heard that for the year 2020, selected boroughs were Brent, Ealing, Kingston, Merton, Richmond and Wandsworth. In Brent, the Peer Review would take place over three-days on the 27-29 January 2020. Brent Council's self-assessment submission to London Resilience for 2020 and the peer review team at the LGA was attached as Appendix A to the report.

In response to a question, the Committee heard that Community Engagement was an area that progressed since the last report. A Community Resilience training package had been developed and was ready to deliver to community groups accompanied by a proposed refresh of our web pages and redesigned Community Resilience Guide. A Member stated that there was an opportunity for member development and scope for clarity about member role and involvement.

On behalf of the Committee, the Chair thanked for a very useful update.

RESOLVED that the Committee noted the contents of the report.

12. **External Audit Progress Report and Sector Update, including Certification of Grants and Returns**

Sophia Brown, Engagement Manager, Grant Thornton, external auditors, introduced the report providing an update on the progress in delivering Grant Thornton's responsibilities as the Council's external auditors. It also included a summary of emerging national issues and developments as well as certification of grants and returns.

Paul Dossett, Partner, Grant Thornton also contributed to the discussion on key issues.

In considering the report and during the discussion, the following key points were noted:

- The Committee noted that the planning for the 2019/20 audit started in October and the detailed audit plan, setting out the proposed approach to the audit of the Council's 2019/20 financial statements would be presented to the Audit and Standards Advisory Committee in March 2020. The interim audit would begin this month (January 2020) and the fieldwork would include updated review of the Council's control environment; updated understanding of financial systems; review of Internal Audit reports on core financial systems; early work on emerging accounting issues; controls testing; and early substantive testing.

- Progress as of January 2020 was summarised on page 4 of the report. Audit deliverables were listed on page 6 and the sector update was covered on page 7 of the report.

- Housing benefits was a complicated area, probably good to reflect on financial audit, needed more time, discipline and rigour like with the accounts. The Chair asked the relevant council team to be informed about it.

  - The Vice Chair stressed that required assessment and additional information needed to be put in the system on time.

- Financial Reporting Council (FRC) - summary of key developments for 2019/20 annual reports was captured on page nine of the report. Grant Thornton was chosen by the FRC as a pilot.

- Paul Dossett, Head of local government at Grant Thornton, had written in the Municipal Journal "Audit has been a hot topic of debate this year and local audit is no exception. With a review into the quality of local audit now ongoing, it's critical that part of this work looks at the overarching governance and management of the audit regime. We believe there is a strong need for new oversight arrangements if the local audit regime is to remain sustainable and effective in the future."

The Chair thanked the external auditors for their report.

RESOLVED that the Committee noted the content of the report.

13. **Additional Audit Fees 2019-20**

The Committee received the report about the increased audit fees to pay for additional audit work Grant Thornton have planned to address enhanced requirements placed upon them by the Financial Reporting Council (FRC), their regulator.

In considering the report, the Committee noted that:

- For the five financial years commencing 1 April 2018, the Audit Committee agreed that the Council should appoint PSAA (Public Sector Audit Appointments) to procure an external auditor for the Council to benefit from the economies of scale and to seek better accountability from PSAA managing contracts on behalf of local government by participating in a procurement across local government. PSAA appointed Grant Thornton as the Council's external auditor for this period. The contract had saved the Council a further £50,736 compared to 2017/18 and 2018/19 audits, which was on top of the earlier reduction in fees of circa 55% compared with the fees in 2012.

- Not all the work that external auditors had to carry out was within the scope of the agreed fees. In such cases, the external auditors might choose to charge additional fees; however, these additional fees were subject to scrutiny by PSAA who had to agree the fees before they were paid. This acted to consolidate skills in managing external audit contracts across local government, and helped ensure a consistent approach to additional fees across the sector.

- The FRC had increased the standard that they require for all audits from 'acceptable but with improvements required' to 'acceptable with limited improvements required'. This meant that, where the FRC reviewed the auditor's work, the FRC would be less tolerant of mistakes in audits that would require improvement. Grant Thornton proposed fees included the cost of additional work in the audit, to ensure that it met this standard.

- To address the higher standard, Grant Thornton planned to reduce the 'materiality level', which would mean further work as additional items would need auditing in more depth. This would also increase work for the council in demonstrating to the auditors that items were accurate to the required level in the Statement of Accounts. The changes in materiality levels had not been formally calculated by Grant Thornton yet, but was estimated on page 2 of the report.

RESOLVED that the Committee noted the additional fees proposed by Grant Thornton.

14. **The Complementary Roles of the ASC, ASAC and Scrutiny Committees (Review the Performance of the Committee - self-assessment)**

Debra Norman, Director of Legal, HR, Audit and Investigations, Brent Council introduced the report seeking the view of the Audit and Standards Advisory Committee (ASAC) with regard to clarifying the respective roles of scrutiny and audit related committees and improving how they work in a complementary way in the future.

The Committee was invited to consider and review the discussion paper attached at Appendix A to the report and to provide feedback/recommendations as to the areas of compatibility and better working between the respective committees. This was viewed as a complementary role.

The Committee heard that the discussion paper proposed that the ASAC and Scrutiny Committees were required to set and agree a work programme at the start of each Municipal Year, based on their respective remits. One way in which to encourage a more joined up approach between Scrutiny and Audit would be for the Chair's (and Vice-Chair of the ASAC) to meet at the start of each municipal year. This joint meeting would review the draft work programmes and identify any areas where there was potential for complementary work. This could be combined with the existing scrutiny committee work planning meetings undertaken by the scrutiny team. Having identified any potential areas of work there would then be the option for each Committee to consider how they might wish to work together in order to support the respective reviews. This complementary work could take the form of Scrutiny proposing specific areas of internal audit focus in order to receive assurance on areas where they might be a gap in that respect. ASAC might wish to receive the outputs of any Scrutiny activity in order to inform the work of the Internal Audit function if assurance gaps became evident.

A Member commented that elected councillors brought a different skillset and lines of enquiry and could not - and should not - be turned into accountants or finance professional. He added that this report should be sent to both scrutiny committees for their consideration and further understanding of the work carried out by audit. He further added that scrutiny resources was an issue and would benefit from additional support.

The Chair welcomed any additional training opportunities, particularly the proposed assessment of the specific training needs of the audit and standards committee members. The Vice Chair welcomed the report and thanked Debra Norman for her work.

RESOLVED that the Committee noted and agreed the content of the report.

15. **Forward Plan and Scheduled Reports**

Kunwar Khan, Governance Officer, introduced the Committee's Forward Plan and highlighted the following additions:

1. Accounting Policies. (likely to be in March 2020)
2. RIPA update back (likely to be in April)

RESOLVED:

Kunwar Khan (Governance Officer, Brent Council) undertook to update the Audit In addition, Standards Advisory Committee's Forward Plan.

16. **Treasury Management Strategy 2020/21**

Amanda Healy, Senior Finance Analyst, introduced the report presenting the draft Treasury Management Strategy (TMS) for 2020/21, which was attached as Appendix 1 to the report for consideration by the Committee. The final version of the TMS incorporating the views of this Committee would be included in the annual budget setting report to be presented to Cabinet on 10 February 2020.

Daniel Omisore, Deputy Director of Finance, also contributed to the discussion.

In considering the report and during the discussion, the following key points were noted:

- The Strategy sets out the framework for Treasury Management activity in 2020/21 and includes details on:

  - Borrowing Strategy and sources of debt finance
  - Investment Strategy, investment types and prescribed limits
  - Treasury Management Indicators for 2020/21
  - Alternative options/strategies
  - External context
  - Local context

- The strategy and its reporting complied with CIPFA Code of practice.

- There was a shift from 'cash rich' to 'borrowing' environment for Brent.

The Committee thanked Amanda Healy for her report.

RESOLVED that the Committee noted the content of the report and commented that the Council should proceed with the strategy.

EXCLUSION OF PRESS AND PUBLIC

The Committee **RESOLVED** that under Section 100A (4) of the Local Government Act 1972 the press and public be excluded from the meeting during consideration of Agenda item 17, **Brent Council Borrowing Strategy Update,** on the grounds that it involved the likely disclosure of exempt information as defined in paragraph 3 (information relating to the financial or business affairs of any particular person, including the authority holding that information) of Part 1 of Schedule 12A of the Act (as amended).

17. **Brent Council Borrowing Strategy Update**

Daniel Omisore, Deputy Director of Finance, introduced the report highlighting that in September 2018, the Brent Council Cabinet approved a comprehensive borrowing strategy setting out the medium to long-term borrowing requirement for the Council, whilst at the same time highlighting several options for funding. The report recommended that the Cabinet endorse the strategy and agreed that officers should (with the support of treasury and legal advisors) commence negotiations to agree a forward funding loan of up to £40m. This report provided an update on the progress made in implementing the actions noted above.

At the invitation of the Chair and Daniel Omisore, Luke Reeve, Engagement Partner, Ernst and Young, also briefed the Audit and Standards Advisory Committee. Mr Reeve in turn also introduced Caroline Ly (Engagement Director), Ralph Manners (Executive) from Ernst and Young who also attended and spoke at the meeting. Mr Reeve handed over to Mr Manners and Ms Ly and left the meeting at 8:11 pm to attend another meeting.

After careful consideration of the report and detailed deliberation, the Committee

RESOLVED to note:

1. The work performed to date (in conjunction with our advisors) in developing and implementing the borrowing strategy set out in Appendix 1 and 2.

2. The conclusion and next steps summarised in section 6 (Appendix 1) of the borrowing strategy report, along with the revised indicative transaction timetable summarised in Appendix 3.

3. The issues concerning climate change, environment, ethical investment, reputational risk be carefully considered.

4. That sufficient checks and balances should be incorporated into the timetable that would allow the council to cease negotiations should investors not be in a position to offer cost effective rates; or if there was a sudden change in market conditions.

5. That enquiries should be made to ensure there were no conflicts of interest with investors.

18. **Any other Urgent Business**

None.

The meeting closed at 20.37 pm

David Ewart
Chair .

Brent	Audit and Standards Advisory Committee 11 March 2020
	Report from the Director of Legal HR Audit and Investigations

Draft Internal Audit Plan 2020/21

Wards Affected:	All
Key or Non-Key Decision:	Non-Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	Two: A. Internal Audit Plan B. Counter Fraud and Awareness Plan
Background Papers:	None
Contact Officer(s): (Name, Title, Contact Details)	Michael Bradley, Head of Audit and Investigations, Michael.Bradley@brent.gov.uk, Tel: 07920 581 620

1.0 Purpose of the Report

1.1 This report sets out the draft Internal Plan for 2020/21 and the basis on which the plan has been prepared.

1.2 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and the Accounts and Audit Regulations 2003 (as amended). The Public Sector Internal Audit Standards (PSIAS) require, "…chief audit executive to establish risk based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals".

1.3 In accordance with the terms of reference for the Committee and in accordance with Standard 2000 – Managing the Internal Audit Activity as outlined within the Public Sector Internal Audit Standards, the Audit and Standards Advisory Committee is asked to review and approve the 2020/21 Internal audit plan.

2.0 Recommendation

2.1 The Audit and Standards Advisory Committee approve the content of the plan (Appendix 1).

3.0 Detail

3.1 The audit planning process reflects that the control environment is constantly changing, requiring continuous review and re-evaluation to ensure that emerging risks are identified and assessed and included as appropriate in the audit plan.

3.2 Based on the budget available for internal audit work, we have made provision for:

- Providing assurance on high-risk areas (including major financial systems) via a risk-based auditing approach and areas that have not been audited for longest, regardless of inherent risk (78%);
- Schools audit coverage via 10 establishment visits (7%);
- Follow up reviews to monitor implementation of audit recommendations (7%), and
- An element for contingency to enable the audit service to provide ad hoc advice and to respond to management requests for support (8%).

3.3 The plan, which is attached at Appendix A, has been based on the assessment of departmental and corporate risks as identified in a 2019/20 risk mapping and review exercise as well as consultation with senior managers. Each audit will contribute to assurance over at least one of the corporate risks.

3.4 The Audit Plan aims to focus upon areas of highest risk as outlined above at 3.2 and is sufficient to provide management with an independent assurance on the adequacy of the Council's governance, risk management and internal control framework.

3.5 The budget for the contracted element of the Internal Audit service has been reduced by £100k for 2020/21. This has had the effect of reducing the audit days available from 1070 to 920. We are confident that resources available allow the provision of effective, meaningful assurance via the annual audit plan.

3.6 The draft Audit Plan will be shared with the Council's external auditor, Grant Thornton. The plan will be delivered through a mixture of in-house and external contractor (PwC) provision.

3.7 The work of the Investigations team is more generic in nature and split between reactive and proactive activity. Details of the planned allocation of Investigation resources is attached at Appendix B.

4.0 Financial Implications

4.1 The proposed Internal Audit Plan for 2020/21 will be delivered in accordance within the approved budget.

5.0 Legal Implications

5.1 All Local Authorities are required to make proper provision for Internal Audit in line with the 1972 Local Government Act and Accounts and Audit Regulations 2011 (as amended). The Public Sector Internal Audit Standards 2017, also require proper planning of audit work.

6.0 Equality Implications

6.1 None

7.0 Human Resources/Property Implications (if appropriate)

7.1 None

Report sign off:
Debra Norman, Director of Legal HR Audit and Investigations

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Draft Internal Audit Plan 2020/21

	Audit	Audit Description and indicative scope	Quarter	Days
Cross Cutting Reviews				
1	Contract Management	A review of the overall risks and controls over contract management including • Contractor Performance (major contractors) • Monitoring and reporting • Contract register • Payments and penalties • Re-tendering • Contractor viability	3	20
2	Complaints Handling	A review of the process and risks (across Council) including • Policy and procedures • Recording of complaints • Actions taken – immediate and long term • Payments process • Monitoring and reporting.	4	15
3	Establishment control/ Leavers Process	A review of the risks and associated controls including: ● Establishment control • Asset management • Data security • Access controls (physical and logical)	2	15
4	Contractors and Temporary Workers	Review to assess the extent to which the Council has controls and processes in place to identify and monitor temporary workers including cost, appointment, vetting and the policies and procedures. Two separate outputs may be delivered on this review.	2	15

	Audit	Audit Description and indicative scope	Quarter	Days
Customer and Digital Service				
5	Council Companies	A review to consider risks and controls around • Governance and role of statutory officers • Reporting, scrutiny and risk management • Policies and procedures • Advice and guidance	1	15
6	GDPR	A review of the Council's compliance with current legislation including • Governance arrangements • Records management • Subject Access Requests • Training and awareness • Data sharing, including third party requests • Information risk management	2	15
7	Risk Based Verification (RBV) Benefits	Review to include • Policies and procedures • Quality checks • Risk profiling • Management information • Testing of Ethics in new robotics areas	4	15
8	PCI DSS	Review of process and controls to include • Monitoring and compliance • Data breaches • Policies and procedures	1	15
9	IT Disaster Recovery	A review of the risks and controls over the tools to support IT Resilience	2	15
10	IT Project Governance	Project Management review to include methodology across the three boroughs.	3	15
11	Cyber workshop	To facilitate a cyber workshop to cover related risks and controls.	2	3
12	IT Asset Mgt in the shared service	Review to include hardware and software.	2	15
13	Council Tax	Review to consider arrangements following the transfer back in house and the findings of 2018/19 project audit, accuracy, timeliness and collection.	1	15

	Audit	Audit Description and indicative scope	Quarter	Days
Finance				
14	Debt Management	Joint with Customer Services. Focus of audit to include: • recovery • write offs • adequacy of reporting. Including Council Tax, NNDR, Mosaic, Housing rents.	2	15
15	Treasury Management	Assurance on the effectiveness and robustness of the arrangements for Treasury Management - key controls around banking arrangements, cash management and forecasts, investments, interest, borrowing, electronic transfers, access to banking systems, reconciliations and policy and procedures.	1	15
16	P2P Programme	Ongoing project assurance work following on from 2019/20	1	15
17	Financial Management Code Readiness Review	Readiness for implementation of EM Code.	3	15
18	Budget Management	Review of corporate arrangements for Budget monitoring and forecasting. Prior to the audit, IA will attend an in-year working group tasked with refreshing current arrangements.	4	15
19	System Financial Processes	Reviews of controls in system financial processes eg Northgate.	2	15
20	Oracle Cloud Project	Real time audit controls advisory work as project progresses.	tbc	10
21	Purchasing Cards	Review to include procurement cards and pre-paid cards - strategic considerations around use of cards for low value transactions, approvals, use of Oracle, appropriateness of use and monitoring for misuse.	1	10
22	Barham Park Accounts	Independent certification of accounts	4	5

	Audit	Audit Description and indicative scope	Quarter	Days
Community Wellbeing				
23	Income collection	To include mitigations in place due to risks created by Universal credit and the new income collection case management function created in CRM.	3	15
24	ASC Budget Monitoring	Review of risks and controls around monitoring of budgets, approvals process, the collaboration with Finance and demand management measures.	1	15
25	NAIL Project	Project management review to include demand management, benefits realisation and monitoring of budgets and savings.	2	15
26	Sexual Health Services	A review of the process and controls to include the strategy, implementation of new pathways and mitigations, financial management and forecasting.	4	15
27	Housing Client Function	Review of the client monitoring and management service for a range of housing delivery partnerships. To include review of governance oversight.	3	15
28	Housing CRM Project	Project Management Review	1	15
29	Introductory Tenancies	A review to provide assurance over the process, risks and controls around introductory tenancies to include policies and procedures, new tenancies, tenancy agreements and monitoring and management of tenancies.	3	15
30	Housing Succession	Review to provide assurance over the risks and controls around housing succession.	2	15
31	Libraries Cash Handling and Banking	To provide assurance over the cash handling and banking arrangements with the libraries.	3	10
32	GLA Affordable Housing Programme	Project review to include grant Funding and budgeting.	3	15
33	ASC Financial Safeguarding	To provide assurance over the risks within ASC financial safeguarding.	3	15
34	Homecare	Advisory audit work on structure, risks and controls of revised service. Audit will advise Project Board.	1	15
35	Adult Social Care Transformation	ASC Transformation Project to integrate services. Project Assurance review to focus on key project objectives, risks and controls.	1	15

	Audit	Audit Description and indicative scope	Quarter	Days
Children and Young People				
36	DSG High Needs Budget Monitoring	Review to provide assurance over the risks and controls including • Strategic Planning • Budget Setting • Demand Planning • Contingency Planning (Many of the processes/controls will lie in Finance)	3	15
37	Commissioning Arrangements	Review of commissioning arrangements and dynamic purchasing vehicles in accordance with Brent's commissions placements in collaboration with West London Alliance.	4	15
38	Early Help	Review to provide assurance over the process and controls in Early Help.	2	10
39	School Audits	Audits of 10 schools, scope includes financial management, governance, procurement, HR and asset management.	All	80

	Audit	Audit Description and indicative scope	Quarter	Days
Regeneration and Environment				
40	Buildings Compliance Oversight	To provide assurance over the risks and controls including • Compliance with regulatory standards • Compliance standards for community schools • Monitoring and reporting through the School Building Compliance Survey. • Performance indicators development and reporting • Compliance Oversight Framework	3	15
41	Parking	To provide assurance on areas not covered in the 2019/20 review including permits. Exact scope to be agreed with Head of Parking.	4	15
42	Property Development	To provide assurance over process and controls including • Project management • Tendering • Contract management • Resource management	2	15
43	Fleet Management	A review of the process, risks and controls including fleet vehicles (owned or leased).	2	15
44	Property Valuations	To provide assurance over process and risks associated with property valuations.	3	10

	Audit	Audit Description and indicative scope	Quarter	Days
Assistant Chief Executive				
45	Neighbourhood CIL	To provide assurance over process and risks of Neighbourhood CIL. Will include process on spend (not collection which sits with planning) to focus on how decisions are made and evaluation of monitoring of spend.	1	15
Human Resources and Legal				
46	Gifts and Hospitality	Review to include: Policies and procedures Record-keeping systems Communication and training Management information, reporting and publication	4	15
47	Workforce Planning/ Succession Planning	To provide assurance over the risks associated with workforce planning and succession planning.	4	15
Others				
48	Troubled Families	To provide regular assurance over the accuracy of troubled families submissions.	All	5
49	FWH/I4B	To be agreed – (budgeted separately from main plan).	tbc	(30)
50	Follow Up Reviews	Follow Up of actions agreed in audits from 2019/20 Audit Plan.	All	80
			TOTAL	**843**

Available resource = 920 days (three auditors (190 p.a.), one apprentice (100 days p.a.) plus c250 PWC contracted days)

Contingency available = 77 days

Counter Fraud Plan 2020/21

Introduction

This is the Counter Fraud Plan for 2020/21.

Objective

To ensure the resources of the Counter Fraud team are effectively targeted to achieve the aims of the council's anti-fraud policies.

Background

The Investigations team's work is split between reactive and proactive activity. Reactive work largely consists of referrals to the team from the Internal, Housing or External fraud types. Proactive activity is generated from within the service and can incorporate any of the reactive fraud types.

All referrals are risk assessed so that resources can be targeted efficiently. The overall counter fraud resource allocation for 2020/21 is as follows:

- **Housing** (including related proactive work)* = 50% (minimum), 570 days;
- **Internal / Whistleblowing**** = 15%, 170 days;
- **External***** = 15%,170 days, and
- **Proactive** (including NFI, fraud awareness, raising team profile and any developing additional anti-fraud initiatives) **** = 20%, 225 days.

* **Housing** remains a key fraud risk area and includes unlawful subletting, non-residency, successions / false assignments, housing/homeless applications and Right to Buy. Housing proactive work will be included within the 50% where possible to assist with the fraud awareness/ raising profile objective. Ongoing proactive work will include our existing involvement with 'Gas Forced Entries', succession applications and Right To Buy applications for council tenancies, which has been demonstrated to be a good source of fraud detection and higher referral quality. NB: Info Sharing Agreements with Housing Associations/RSLs will be reviewed/renewed. We will review our working practices with these organisations as some now use private investigators, credit reference agencies and other fraud prevention systems to help recover their properties i.e. there is less reliance on LA fraud teams to investigate their tenants.

** **Internal / Whistleblowing** is almost impossible to predict and quantify due to its nature. A high priority, or more complex, case can quickly take up team resource e.g. serious financial irregularity or corruption allegation. The fraud type affects all areas of the council and will often take priority. In most cases, the decision to investigate will be taken regardless of what the initial intelligence suggests and as such, increased planning and managing client expectations becomes a significant factor. It is probable that during 2020/21, the time spent in this area will be higher than 15% especially with related plans for raising fraud awareness and team profile.

*** **External** will include Blue Badge, Council Tax, Business Rates and all application-based fraud types. The capacity to manage this area of fraud has historically been affected by the higher priority fraud types above. The team will be developing additional anti-fraud initiatives including other enhanced data-matching tools to prevent and detect fraud.

**** **Proactive** (including NFI, fraud awareness and developing additional anti-fraud initiatives). All the above fraud types are reactive and therefore difficult to quantify. The counter fraud plan will be predominantly made up of proactive activity based on known and intelligence led key fraud risk areas, fraud awareness/publicity plans, corporate risk register and Internal Audit delivery. Example 1: Housing Tenancy high-risk areas. Example 2: Staff Identity Checks in key service area in conjunction with fraud awareness plan. Example 3: specific proactive in Essential User Permits following internal audit completion. The proactive area will be the easiest to quantify in terms of a counter fraud plan e.g. planned Blue Badge operations, fraud awareness workshops / service engagement in key fraud risk areas and review-based proactive work (i.e. NFI).

IMPORTANT: It should be noted that due to the often confidential and sensitive nature of the team's work, a certain amount of activity cannot be published in advance.

Fraud Awareness Plan

The purpose of this section is to set out the draft Fraud Awareness Plan against the main Counter Fraud Plan for 2020/21. The objective is to raise awareness of the risk of fraud amongst officers, residents and members to help ensure that Brent's assets are adequately protected.

A refresh of the main anti-fraud policies was approved by the Audit Advisory Committee on 5th December 2017. This has enabled the Counter Fraud team to promote these policies amongst all stakeholders to increase awareness, generate better quality referrals and raise the team's profile.

A significant amount of engagement is already underway, which includes workshops with all service areas and updating the content of our intranet and internet pages. The plan will be reviewed each quarter and amended accordingly.

The main anti-fraud policies are; (a) Anti-Fraud, Bribery and Corruption Policy, (b) Anti-Money Laundering Policy and (c) Whistleblowing Policy.

Related policies; (a) Disciplinary Policy, (b) Staff Code of Conduct, (c) Conflicts of Interests Policy and (d) Financial Regulations (and related guidance). These include the equivalent policies and regulations relating to schools.

Activity	Description	2020/21 Qtr	Planned / Update
Policies	Update anti-fraud policies on intranet and internet pages including related content.	-	Completed 2019/20 Q1.
E-learning	New starter induction – review current e-learning mandatory course.	Q1-Q2	There is an existing anti-fraud e-learning course for new starters, the content of which needs to be reviewed and refreshed.

	Existing staff – consider introduction of an annual e-learning mandatory course.		Not started (as above). Plan to implement by end Q2.
Website	Review content within both intranet and internet pages.	-	Completed 2019/20 Q2.
Fraud Risk Awareness Workshops	Deliver fraud awareness sessions / workshops throughout council service areas, schools and other stakeholders.	Q1-Q4	A programme of workshops and awareness sessions delivered by the Counter Fraud team started in 2018/19. This has covered main service areas, members and schools. The plan is to continue to deliver sessions to key service areas and stakeholders. NB: This also includes joint refresher workshops with Legal to deliver sessions on fraud risks and how to use social media in accordance with council policy.
Yammer	Increased presence on Yammer. Publish appropriate investigation outcomes. Publicise fraud alerts / guidance. Online workshops / group chats and advice on anti-fraud related matters.	Q1-Q4	Counter Fraud activity, guidance, alerts, and key case outcomes are published regularly. Yammer will continue to be used to deliver key messages.
Technology	Consider new technologies to prevent / detect fraud.	Q1-Q2 Q1-Q2 Q1 Q2 Q1-Q2	INTEC i-Latch (housing – tenancy checker) – under review. GBG Connexus – Visualise system (identity checker) – under review. GBG ID Scan - Scannet (ID authentication). Four machines to be installed at the council. Cifas NFD / IFD (anti-fraud databases). The NFD system was introduced in 2019. IFD is the internal anti-fraud system that is under review with a plan to introduce this year. INTEC IDIS / NFI AppCheck (using internal data matching with credit reference data). Both applications are being reviewed to consider implementation later this year.
Service Engagement	Team / Service meetings	Q1-Q4	Representation at Committee, CMT, DMT, service / team meetings.

			We are actively encouraging A&I presence at service / team meetings where appropriate.
Advice	Provide an advisory service	Q1-Q4	Encourage teams to approach for advice and guidance in relation to fraud risks. Take proactive approach to assist with new procedures / process in other service areas, to mitigate fraud risks.
Collaboration	Enhance closer / joint working.	Q1-Q4	Set up workshops with key partner teams such as HR, Legal, Housing, Parking and other regulatory/enforcement teams to improve joint working, closer collaboration, share best practice and increase understanding of fraud risks.
Publicity	Public awareness	Q1-Q4	Review poster / newsletter campaign to communicate Brent's approach to fraud and means of reporting suspected fraud.

Grant Thornton
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Audit Progress Report and Sector Update

Brent Council

Year ending 31 March 2020

11 March 2020

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Introduction

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This paper provides the Audit and Standards Advisory Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority.

Members of the Audit and Standards Advisory Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk.

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either Paul or Sophia.

Progress at February 2020

Financial Statements Audit

We began our planning for the 2019/20 audit in November, and we began our interim audit in January with a further visit planned for March. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues
- Early substantive testing

The work is ongoing and we have some findings to report to you, see page 7.

We have issued a detailed audit plan (included in the Committee papers), setting out our proposed approach to the audit of the Council's 2019/20 financial statements.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts by the end of July.

Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

•Informed decision making

•Sustainable resource deployment

•Working with partners and other third parties

Details of our initial risk assessment to determine our approach will be included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by the end of July.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see page 11 for more details.

Progress at February 2020 (Cont.)

Other areas

Meetings

We met with Finance Officers in February as part of our regular liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective. We also met with your Chief Executive in March to discuss the Council's strategic priorities and plans.

Events

We provide a range of workshops, along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, 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 additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit & Standards Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Audit deliverables

2019/20 Deliverables	Planned Date	Status
Fee Letter		
• Confirming audit fee for 2019/20.	April 2019	Complete
• Advise of additional fee for 2019/20	January 2020	Complete
Accounts Audit Plan We are required to issue a detailed accounts audit plan to the Audit and Standards Advisory Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements.	March 2020	Complete
Interim Audit Findings We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.	March 2020	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit and Standards Advisory Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusions and recommendations
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention. We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.
Walkthrough testing	We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a significant risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.	Our work has not identified any weaknesses which impact on our audit approach.
Journal entry controls	We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy and have not identified any material weaknesses which are likely to adversely impact on the Council's control environment or financial statements.	Our work has not identified any weaknesses which impact on our audit approach.

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

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Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local government

Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit 'product'. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the 'expectation gap' (ie what stakeholders and society expect from audit compared to what it delivers today).

A full list of Sir Donald's recommendations can be found online, and a brief summary is provided below:

- Redefinition of audit and its purpose
- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor's responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: "We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements."

"Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect."

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain's future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world's financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

Link to the full report and full list of recommendations:

https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review

Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission, We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to retain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;
- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *"the Audit, Reporting and Governance Authority (ARGA)* (the proposed new regulatory body) *should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements*." Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

."

National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

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Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

Stage 1 involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the Issues paper and this informed the development of the draft Code. A summary of the responses received to the questions set out in the Issues paper can be found below.

Local audit in England Code of Audit Practice – Consultation Response (pdf – 256KB)

Stage 2 of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code incudes three specific criteria that auditors must consider:

a) Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;

b) Governance: how the body ensures that it makes informed decisions and properly manages its risks; and

c) Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

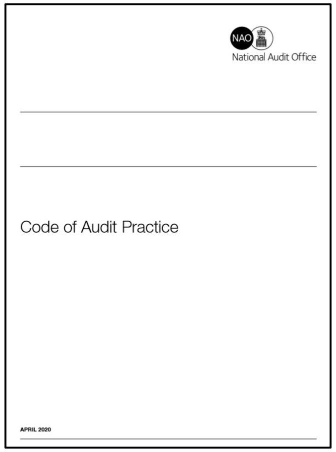
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf



Financial Reporting Council – Summary of key developments for 2019/20 annual reports

On 30 October the Financial Reporting Council (FRC) wrote an Open Letter to Company Audit Committee Chairs. Some of the points are relevant to local authorities.

The reporting environment

The FRC notes that, "In times of uncertainty, whether created by political events, general economic conditions or operational challenges, investors look for greater transparency in corporate reports to inform their decision-making. We expect companies to consider carefully the detail provided in those areas of their reports which are exposed to heightened levels of risk; for example, descriptions of how they have approached going concern considerations, the impact of Brexit and all areas of material estimation uncertainty." These issues equally affect local authorities, and the Statement of Accounts or Annual Report should provide readers with sufficient appropriate information on these topics.

Critical judgements and estimates

The FRC wrote "More companies this year made a clear distinction between the critical judgements they make in preparing their accounts from those that involve the making of estimates and which lead to different disclosure requirements. However, some provided insufficient disclosures to explain this area of their reporting where a particular judgement had significant impact on their reporting; for example, whether a specific investment was a joint venture or a subsidiary requiring consolidation. We will continue to have a key focus on the adequacy of disclosures supporting transparent reporting of estimation uncertainties. An understanding of their sensitivity to changing assumptions is of critical value to investors, giving them clearer insight into the possible future changes in balance sheet values and which can inform their investment decisions." Critical judgements and estimates also form a crucial part of local authority statements of account, with the distinction often blurred.

IFRS 16 Leases

The FRC letter also comments on the introduction of IFRS 16. Please refer to pages XX for more information on this topic.

Financial Reporting Council – aid to Audit Committees in evaluating audit quality

On 19 December the Financial Reporting Council (FRC) issued an update of its Practice Aid to assist audit committees in evaluating audit quality in their assessment of the effectiveness of the external audit process.

The FRC notes that, “The update takes account of developments since the first edition was issued in 2015, including revisions of the UK Corporate Governance Code, the requirement for all Public Interest Entities (PIEs) to conduct a tender at least every 10 years and rotate auditors after at least 20 years, and increasing focus generally on audit quality and the role of the audit committee. It also takes account of commentary from audit committees suggesting how the Practice Aid could be more practical in focus and more clearly presented.

The framework set out in the Practice Aid focuses on understanding and challenging how the auditor demonstrates the effectiveness of key professional judgments made throughout the audit and how these might be supported by evidence of critical auditor competencies. New sections have been added addressing the audit tender process, stressing that high-audit quality should be the primary selection criterion, and matters to cover in audit committee reporting.

As well as illustrating a framework for the audit committee’s evaluation, the Practice Aid sets out practical suggestions on how audit committees might tailor their evaluation in the context of the company’s business model and strategy; the business risks it faces; and the perception of the reasonable expectations of the company’s investors and other stakeholders. These include examples of matters for the audit committee to consider in relation to key areas of audit judgment, and illustrative audit committee considerations in evaluating the auditor's competencies.

The FRC encourages audit committees to use the Practice Aid to help develop their own approach to their evaluation of audit quality, tailored to the circumstances of their company. Audit committees are encouraged to see their evaluation as integrated with other aspects of their role related to ensuring the quality of the financial statements – obtaining evidence of the quality of the auditor’s judgments made throughout the audit, in identifying audit risks, determining materiality and planning their work accordingly, as well as in assessing issues.”

The Practice Aid can be obtained from the FRC website:

https://www.frc.org.uk/getattachment/68637e7a-8e28-484a-aec2-720544a172ba/Audit-Quality-Practice-Aid-for-Audit-Committees-2019.pdf

Implementation of International Financial Reporting Standard 16 *Leases*

IFRS 16 *Leases,* as interpreted and adapted for the public sector, will be effective from 1 April 2020.

Background

IFRS 16 Leases was issued by the International Accounting Standards Board (IASB) in January 2016 and is being applied by HM Treasury in the Government Financial Reporting Manual from 1 April 2020. Implementation of the Standard will be included in the *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code) for 2020/21.

The new Standard replaces the current leasing standard IAS 17 and related interpretation documents IFRIC 4, SIC 15 and SIC 27 and it sets out the principles for the recognition, measurement, presentation and disclosure of leases. The IASB published IFRS 16 because it was aware that the previous lease accounting model was criticised for failing to provide a faithful representation of leasing transactions.

Impact on 2019/20 financial statements

Whilst the new Standard is effective from 1 April 2020, authorities are required by the Code to *'disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted'.* This requirement of the Code (3.3.4.3) reflects the requirements of paragraph 30 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors.*

In the 2019/20 financial statements we would therefore expect to see authorities make disclosures including:

- the title of the Standard
- the date of implementation
- the fact that the modified retrospective basis of transition is to be applied, with transition adjustments reflected through opening reserves
- known or reasonably estimable information relevant to assessing the possible impact that application will have on the entity's financial statements, including the impact on assets, liabilities, reserves, classification of expenditure and cashflows
- the basis for measuring right of use assets on transition
- the anticipated use of recognition exemptions and practical expedients recognising that what is sufficient disclosure for one body may not be sufficient for another

Information needed for 2019/20 financial statements

In order to make disclosures in 2019/20, a significant amount of data will be needed, most significantly:

- a complete list of leases previously identified under IAS 17 and IFRIC 4
- details of non-cancellable lease terms, purchase options, extension and termination options
- details of lease arrangements at peppercorn or NIL rental
- anticipated future cash flows and implicit interest rates or incremental borrowing rates to enable calculation of lease liabilities

Audit work on IFRS 16 transition

At this stage, we would expect you to have:

- determined whether the impact of IFRS 16 will be material for your authority
- raised awareness of the new Standard across the authority, potentially including procurement, estates, legal and IT departments
- assessed the completeness and accuracy of your lease register and taken action if necessary
- formalised and signed existing lease documentation
- identified leases of low value assets and leases with short terms
- considered whether liaison with valuation experts is necessary
- started to draft your 2019/20 disclosure note
- started to embed processes to capture the data necessary to manage the ongoing accounting implications of IFRS 16

and that you are monitoring progress against an approved IFRS 16 implementation plan. Your local engagement team will be in touch to discuss your progress with IFRS 16 implementation and audit working paper requirements.

Implementation of International Financial Reporting Standard 16 *Leases*

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Further information and guidance

CIPFA published their 2020/21 Code consultation on 12 July 2019, including an Appendix concerned with IFRS 16 implementation, further details can be found at:

https://www.cipfa.org/policy-and-guidance/consultations-archive/code-of-practice-on-local-authority-accounting-in-the-united-kingdom-202021?crdm=0

HM Treasury published IFRS 16 Application Guidance in December 2019 which can be found at:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/853238/IFRS_16_Application_Guidance_December_2019.pdf

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CIPFA's IFRS 16 'Early guide for local authority practitioners' is available at:

https://www.cipfa.org/policy-and-guidance/publications/i/ifrs-16-leases-an-early-guide-for-local-authority-practitioners

IFRS 16 has been adopted a year earlier in the commercial sector. The Financial Reporting Council has published an IFRS 16 Thematic Review *'Review of Interim Disclosures in the First Year of Application',* containing key findings from their review and providing helpful insights into important disclosure requirements. The FRC's publication is available at:

https://www.frc.org.uk/getattachment/a0e7c6e7-67d0-40fe-b869-e5cc589afe79/IFRS-16-thematic-review-2019-optomised.pdf.

Financial Reporting

Challenge question:

Does your authority have a project plan in place in relation to IFRS 16 *Leases* implementation?

Is your authority's progress against the project plan on track?

CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.

CIPFA The Chartered Institute of Public Finance & Accountancy

The Financial Resilience tool is available on the CIPFA website below:

https://www.cipfa.org/services/financial-resilience-index/

Financial Resilience

Challenge question:

Has your Authority used the CIPFA index and fed back the key messages?

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Grant Thornton

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.

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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.

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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.

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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

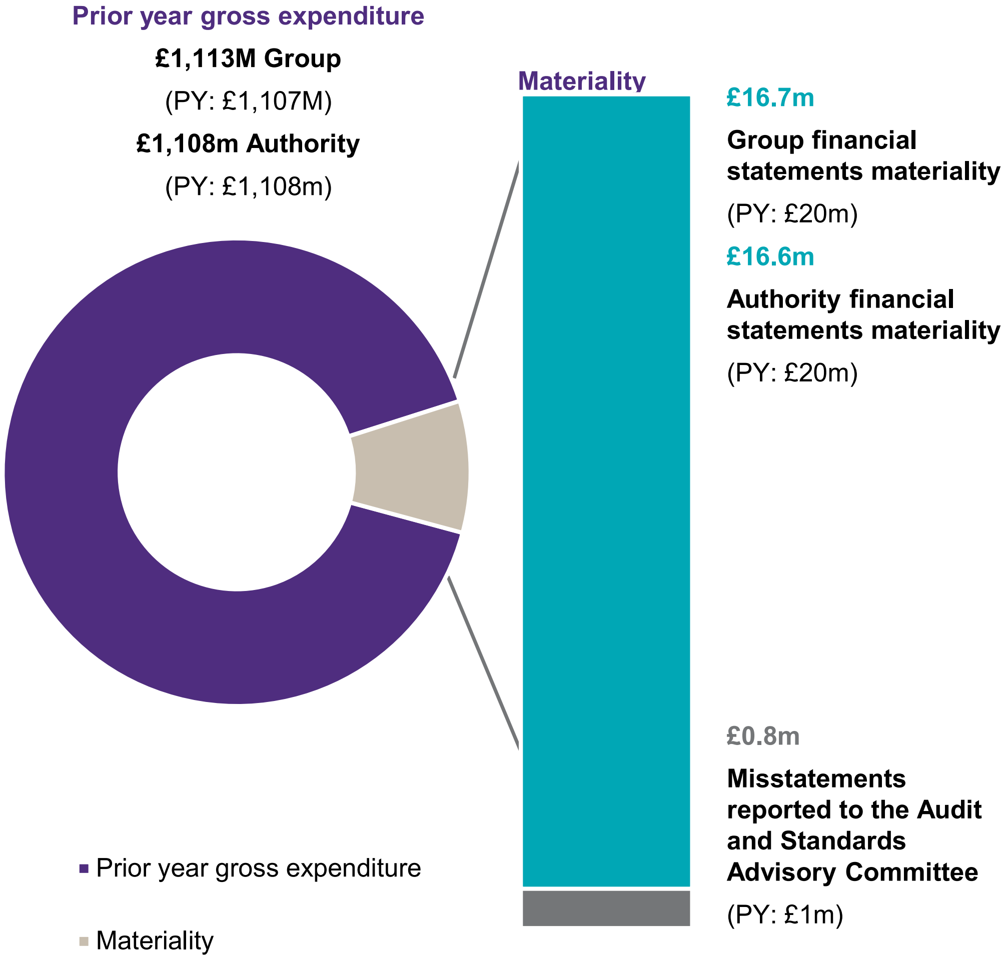
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £8m (PY £8m) for the Pension Fund, which equates to 1% of your prior year 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:

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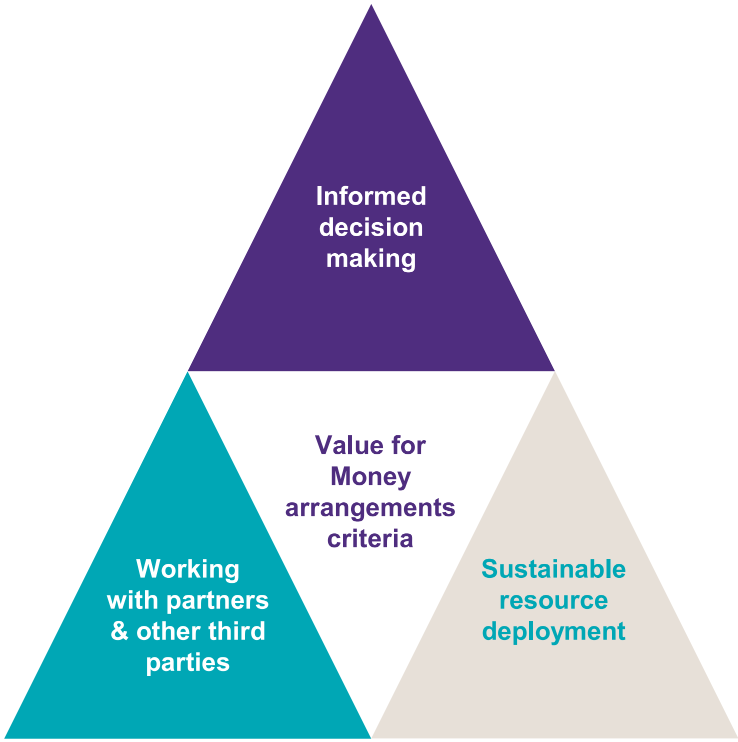


Significant VFM risks

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.

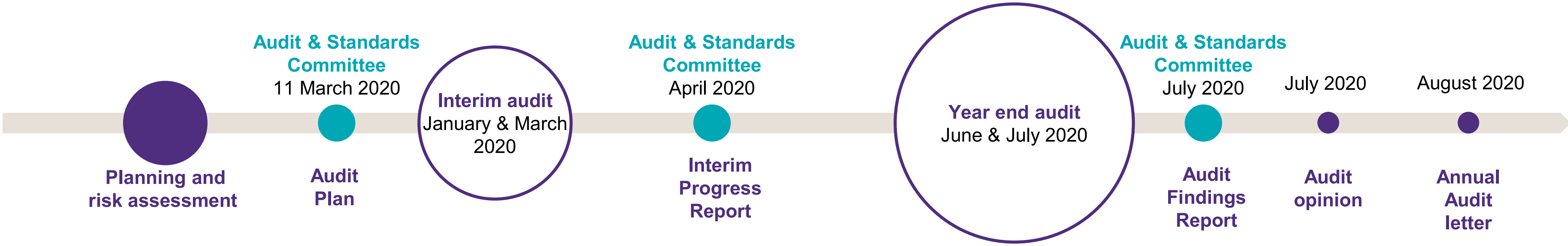
We will review the Authority's arrangements for delivering its budget including the arrangements for monitoring and reporting delivery of savings plans for 2019/20. We will also review the Authority's reserves position.

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.

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	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:

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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.

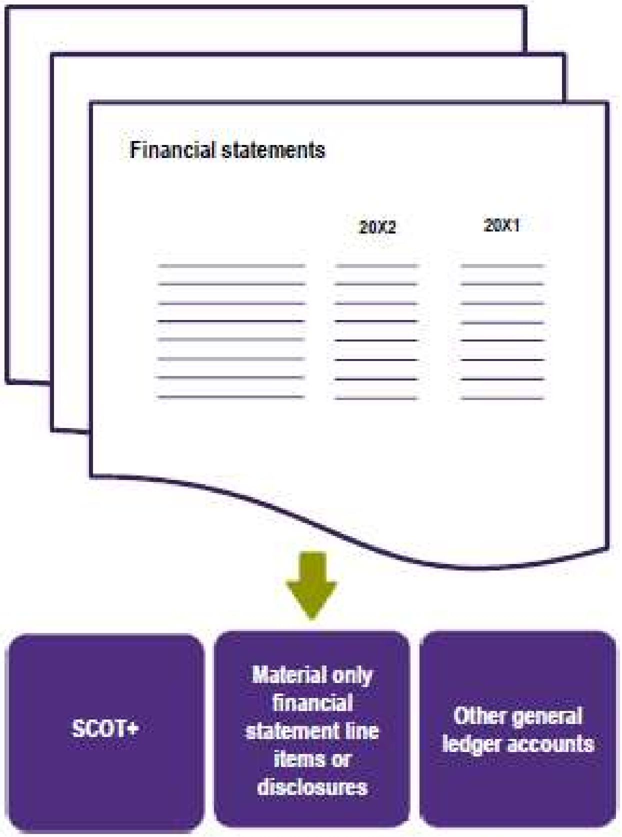
What will be different in this audit?

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



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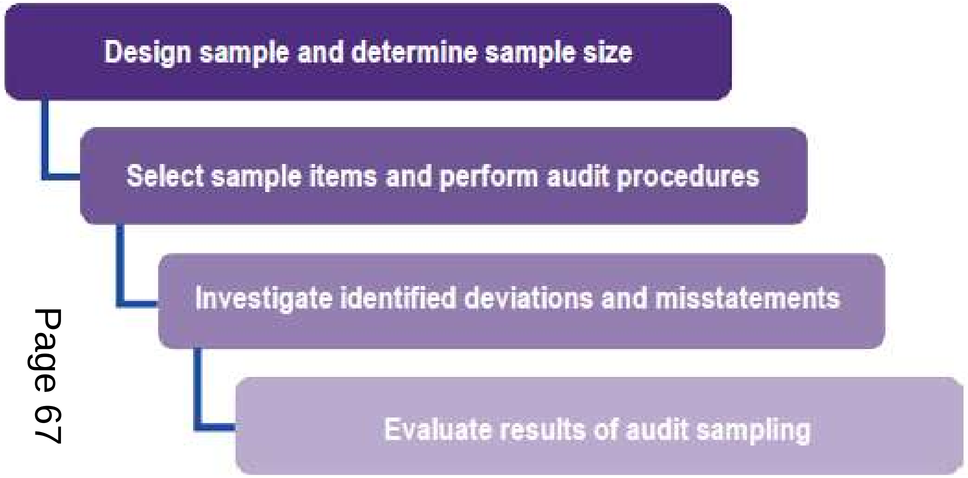
Scoping the audit typically starts by considering financial statement line items and disclosures. It involves identifying classes of transactions, account balances, and disclosures that will be subjected to audit procedures. The following are in scope:

- 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



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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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Brent	**Audit and Standards Advisory Committee** 11 March 2019
	Report from the Director of Finance

Accounting Policies for the year 2019/20

Wards Affected:	All
Key or Non-Key Decision:	Key
Open or Part/Fully Exempt: (If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)	Open
No. of Appendices:	One: 1. Updated Statement of Accounting Policies
Background Papers:	Not applicable
Contact Officer(s): (Name, Title, Contact Details)	Daniel Omisore Deputy Director of Finance Daniel.Omisore@brent.gov.uk, 020 8937 3057

1.0 Purpose of the Report

1.1 The council is required to adopt accounting policies each year to set out how the Statement of Accounts will be produced. The Accounting Policies are based on the previous year's accounting policies with some minor changes to cover new accounting standards and clarify the existing accounting policies.

2.0 Recommendation(s)

2.1 The proposed Accounting Policies at Appendix A are reviewed and agreed as the basis for the production of the 2019/20 Statement of Accounts.

3.0 Detail

3.1 The Chartered Institute of Public Finance Accountants (CIPFA) annually issues the Code of Practice on Local Authority Accounting in the United Kingdom (henceforth referred to as the "Code of Practice") which sets out how local authorities should account for their transactions and financial position in the Statement of Accounts. One of the requirements of the Code of Practice is for local authorities to set out their Accounting Polices within the Statement of Accounts. The Accounting Policies explain how the Code of Practice has been interpreted and applied to the authority.

3.2 The key element of Brent Council's approach to the Accounting Policies is that it follows and applies the Code of Practice unless otherwise stated in its Accounting Policies.

3.3 Accounting Policies can only be updated in certain circumstances:

- if the change is required by the Code or;
- the change would result in the financial statements providing more reliable and relevant information about the effects of transactions, other events and conditions on the authority's financial position, financial performance or cash flows.

3.4 If an authority does change its accounting policies then it is required to retrospectively apply the changes to its Statement of Accounts, and issue a third balance sheet to aid readers of the accounts in comparing the accounts to previous years, unless the Code of Practice contains transitional arrangements that do not require such a disclosure.

3.5 The only update to the Council's accounting policies this year relates to an update to the latest version of the Code of Practice, and underlying financial standards. The Accounting Policies have been updated to highlight the additional disclosures within IFRS16 accounting for leases. IFRS 16 is due to be adopted in 2020/21 and in accordance with the Code of Practice the accounts for 2019/20 will include a disclosure for the estimated impact of this change. Therefore, in practice there are no change to accounting policies this year.

4.0 Financial Implications

4.1 This entire document is focused on Accounting Policies, but there are no specific financial implications of this proposal.

5.0 Legal Implications

5.1 It is necessary for the council to adopt Accounting Policies under the Code of Practice. The Code of Practice sets out the proper accounting practices defined by Section 21(2) of the Local Government Act 2003. These proper practices apply to Statements of Accounts prepared in accordance with the statutory framework established for England by the Accounts and Audit Regulations 2015.

6.0 Equality Implications

6.1 There are no equality implications of this report.

Report sign off:

Minesh Patel
Director of Finance

Statement of Accounting Policies

1. Code of Practice

The general policies adopted in preparing these accounts are in accordance with the current Code of Practice on Local Authority Accounting in the United Kingdom issued by the Chartered Institute of Public Finance Accountants (CIPFA)), henceforth referred to as the "Code of Practice". This Code of Practice is based upon International Financial Reporting Standards (IFRS), with some adoptions from International Public Sector Accounting Standards (IPSAS).

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government).

1.1 Materiality

The Council has presented information in the accounts to provide a full picture of its performance and financial health, any of which, if omitted, might influence decisions made on the basis of these accounts. Information about transactions and balances of low financial value and which are non-influential for decision-makers (immaterial) have been omitted where possible to improve the readability of the statements.

1.2 Rounding

It is not the Council's policy to adjust for immaterial cross-casting differences between the main statements and disclosure notes.

2. Comprehensive Income and Expenditure Statement

2.1 Accruals of Expenditure and Income

The Statement of Accounts is prepared on an accruals basis with the effects of transactions and other events being recognised when they occur, and recorded in the accounting records and reported in the financial statements of the periods to which they relate. This means that:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

The exception to this is the Cash Flow Statement which is prepared in accordance with International Accounting Standard (IAS) 7.

2.3 VAT
Income and expenditure accounts are VAT exclusive, unless VAT is irrecoverable, in which case it is included.

2.4 Revenue Grants
Grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.

2.5 Charges to Revenue
Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

The provision for depreciation are charged to the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement to the relevant service.

This results in a charge to the General Fund for depreciation for all General Fund fixed assets used in the provision of services. The charge is allocated to each individual service on the basis of the capital employed in its provision. Depreciation charges are reversed out of the General Fund in the Movement in Reserves Statement.

Depreciation is a bottom line charge to the HRA. An amount equal to depreciation is credited to the Major Repairs Reserve via the Movement on the HRA statement, and the impact of this is offset by crediting the Movement on the HRA statement with the same amount from the Capital Adjustment Account.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to earmarked reserves are disclosed in the Movement in Reserves Statement and the notes to this statement.

2.6 Council Tax and National Non Domestic Rates (NNDR)
Council Tax included in the Comprehensive Income and Expenditure Statement (CIES) account is Brent's accrued income for the year including its share of the surplus or deficit arising. The collection of Council Tax on behalf of the Greater London Authority (GLA) is in substance an agency arrangement so these amounts are not shown in the surplus or deficit on provision of services section of the Comprehensive Income and Expenditure Statement. There will be a debtor / creditor position between Brent and the GLA to be recognised in Brent's balance sheet if the net cash paid to the GLA is not exactly its share of cash collected from Council Taxpayers. In this case, Brent's accrued income will be shown in the taxation and non-specific grant section of the Comprehensive Income and Expenditure Statement. The 'Operating Activities' section of the cash flow statement only includes Brent's share of Council Tax cash collected during the year.

The income collected from NNDR is shared between the Council, Central Government and the Greater London Authority (GLA) rather than being paid over to government and redistributed (so is now acting as principal and agent.) Apart from its own share of NNDR transactions, Brent accounts only for the effects of timing differences between the collection of NNDR attributable to major precepting authorities and central government and paying it across.

2.7 Foreign Currency Transactions

Transactions in foreign currencies are accounted for in Sterling at the rate ruling on the date of the transactions. The Pension Fund accounting policies deal with the only foreign currency denominated assets disclosed on the balance sheet.

2.8 Jointly Controlled Operations

The council has jointly controlled operations in the form of pooled budgets in conjunction with Brent CCG and Central and North West London NHS Foundation Trust. The Council's joint operations with Brent CCG relate to the Better Care Fund and the Brent Integrated Community Equipment Service. The Council's joint operation with the Central North West London Mental Health Trust relate to the management of the joint Mental Health Service in Brent. The authority recognises the income that it gains and expenditure that it incurs on the Comprehensive Income and Expenditure Statement. The Balance sheet recognises any assets and liabilities resulting to the council from the pooled budget.

3. Balance sheet – Non Current Assets

3.1 Plant, Property and Equipment

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment (PPE).

All expenditure on the acquisition, creation or enhancement of PPE above the Council's de minimis of £5,000 is capitalised on an accruals basis in the accounts. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (ie most repairs and maintenance) is charged as an expense when it is incurred.

Property, Plant and Equipment are initially measured and subsequently valued on the basis required by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS). This is performedby the Council's In-house Valuer and its appointed valuers Wilkes, Head and Eve LLP. Property, Plant and Equipment are classified into the groupings required by the Code of Practice.

Individual categories of assets are valued on the following basis:

- Council dwellings are valued using a beacon principle (i.e. using sample dwellings) based on their Open Market Value (OMV) but adjusted to reflect their value as social housing.
- Other Land and Buildings are included in the balance sheet at their OMV. The exceptions to this are school buildings and Social Services establishments that are included at their Depreciated Replacement Cost (DRC).
- Surplus assets are included in the balance sheet at their OMV.
- Community assets are included in the balance sheet at depreciated historic cost where appropriate otherwise they are included at a nominal value.

- Infrastructure assets, vehicles, plant, furniture and equipment have been valued at depreciated historic cost.
- Assets under construction are held at their invoiced construction cost at year end.

Revaluations of Property, Plant and Equipment are planned on a five year cycle with a proportion of the asset base being revalued each year. Material changes to asset valuations resulting from works or similar investment outside of the agreed revaluation of assets cycle will be adjusted in the period as they occur.

3.1.1 Depreciation and Amortisation
Depreciation is the measurement of the cost or revalued amount of the economic benefits of the tangible non-current assets that have been consumed during the financial year.

Amoritisation is the measurement of the cost or revalued amount of the economic benefits of the intangible non-current assets that have been consumed during the financial year.

Consumption includes the wearing out, using up or other reduction in the useful economic life of a non-current asset whether arising from use, passing of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

Depreciation is calculated on all building assets using the straight line method as set out below. Land Assets are not depreciated.

Buildings (including HRA)	5 – 60 years as determined by the valuer
Infrastructure	10 – 40 years
Plant, Vehicles, Equipment & Machinery	Up to 10 years
Community Assets	Not depreciated where held at nominal value

Housing Revenue Account dwellings are depreciated by an estimate of the consumption of economic benefits.

Where buildings assets are revalued, the accumulated depreciation at the beginning of the year is written down to the revaluation reserve.

3.1.2 Component Accounting
Local authorities are required to value the components of major assets, where the components are of material value and have a significantly different economic life to the asset itself.

Componentisation will be undertaken where the value of the individual component is over £2m and the value of that component is in excess of 20% of the total gross carrying value of the building and will be undertaken when buildings are valued or re-valued, or enhancement expenditure of £0.25m is incurred.

Where componentisation applies the assets will be broken down into the following broad categories;

- **Building main structure** - including foundations, structure, doors, windows and internal finishes - Design life 60 years.
- **Heating systems** - boilers, hot water systems, piping, air ventilation, pumps - Design life 25 years.
- **Electricals** - fixed wiring, lighting - Design life 30 years.
- **Mechanical plant** - lifts - Design life 30 years.
- **Roof structure** - Design life 50 years.
- **Externals** - drains, service mains, car parks, play areas, landscaping - Design life 60 years.

The estimated life of the individual categories may vary and the above is intended as a guide. In some circumstances further break down to additional components maybe justified for unusual or specialist building elements.

The remaining life of each of the elements is given, then the blended remaining useful life is calculated and applied to the overall asset.

3.2 Investment Properties
Investment properties are properties held solely for capital appreciation or rental income. The Code of Practice requires that investment properties are not depreciated, but instead held at fair value, in this case OMV, and their book value is adjusted annually where there has been a material change in value.

3.3 Heritage Assets
Heritage Assets are defined as:

A tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture, or an intangible asset with cultural, environmental or historical significance.

Heritage assets are carried at valuation rather than fair value, reflecting the fact that exchanges of heritage assets are uncommon. The Council's valuation is as per an insurance valuation. Revaluations will be carried out as and when the insurance valuation is updated.

3.4 Intangible Assets
Intangible assets are identifiable non-monetary assets without physical substance. Expenditure on purchasing intangible fixed assets such as computer software has been capitalised at cost when it is probable that future economic benefit or service potential will flow to the authority.

Amortisation is the equivalent of depreciation for intangible assets and is calculated using the straight line method based on estimated economic life of between 5 to 7 years.

3.5 Impairment
Impairment reviews on groups of assets are undertaken on an annual basis by the valuer. Impairment is recognised where the asset's carrying value is greater than its net recoverable value in use or through sale, and the loss is specific to the asset, or a small group of assets. Losses not specific to the asset or a small group of assets, such as a general fall in market prices will be treated as revaluation losses.

Impairment losses are recognised against historic cost, and revalued net book value (for revalued assets). Losses for revalued assets will be recognised against the revaluation reserve to the limit of the credit balance for that asset in the revaluation reserve, and thereafter in surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement. Losses for non-revalued assets will be recognised in surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement.

The impairment review includes an annual assessment of whether there is indication that the recoverable value of any impaired assets has increased, reversing part or all of the impairment.

For Plant, Property and Equipment, and Intangible Assets, if there is indication that the recoverable value has increased, the valuer will reassess the economic life of the asset for the purposes of determining depreciation. The impairment will be reversed to the extent that up to the carrying value of the asset had there been no impairment. This reversal will in the first instance be used to reverse any charge made to the surplus or deficit on provision of services in the Comprehensive Income and Expenditure Statement, and then to the revaluation reserve.

4. Balance sheet – Current Assets

4.1 Inventories and Long Term Contracts
Inventories are valued at the lower of cost and net realisable value. The Council only obtains inventories through exchange tranactions.

4.2 Cash and Cash Equivalents
IAS 7 defines cash and cash equivalents as cash, bank balances, and very short term investments used for cash management purposes. The Council uses bank overdrafts as part of its cash management strategy, therefore these are disclosed as part of cash and cash equivalents in line with IAS 7. Short term investments invested for three months or less with a known maturity value and date are included in cash and cash equivalents; the Council uses money market funds as an integral part of its cash management, so these investments are also disclosed as part of cash and cash equivalents.

4.3 Work in Progress (Construction contracts)
Under the Code of Practice, construction contracts undertaken by the Council for the Council's customers are accounted for as set out in the code This is separate from Assets under Construction where the Council is constructing assets for its own use. The Code of Practice requires use of the percentage completion method for calculating accounting entries for such contracts. Under the percentage of completion method, contract revenue is matched with the contract costs incurred in reaching the stage of completion, resulting in the reporting of revenue, expenses and surplus/deficit which can be attributed to the proportion of work completed. The percentage of completion is assessed based on costs incurred for work performed to date.

Until the point where outcome of the construction contract can be reliably estimated, revenue will only be recognised in line with construction costs to date. Once construction costs can be reliably measured, revenue will be recognised using the percentage completion method described above. Any expected losses will be immediately recognised as an expense.

5. Balance sheet - Liabilities

5.1 Provisions, Contingent Liabilities, and Contingent Assets

The Council makes a provision in compliance with IAS 37 where there is a present obligation as a result of a past event where it is probable that the Council will incur expenditure to settle the obligation and where a reasonable estimate can be made of the amount involved.

In addition to the provisions listed in note 9 to the Core Financial Statements, there is a provision for unrecovered debts, this has been netted off against the debtors figure on the balance sheet (see note 2 to the Core Financial Statements).

The Code of Practice requires provisions to be split into current provisions (within a year) and long term provisions. The current provision for insurance is estimated by on the basis of professional advice provided on the insurance fund.

The Council makes provision for the outcome of Non-domestic ratepayers appeals cases, the outcome of which is decided by the Valuation Office Agency. Appeals can be backdated by five years and so a calculation is done to estimate potential losses in each year taking in to account the relevant multiplier in that particular year and the success rate of previous appeals.

A contingent liability is disclosed in the notes to the accounts where there is either a possible obligation as a result of a past event where it is possible that the Council will incur expenditure to settle the obligation; or a present obligation as a result of a past event where it is either not probable that the Council will incur expenditure to settle the obligation, or where a reasonable estimate of the future obligation cannot be made.

A contingent asset is disclosed in the notes to the accounts where a possible asset arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Council.

5.2 Employee benefits
The Council recognises a provision for the entitlement of its employees to benefits within the reported financial year. This provision is estimated based on the entitlement of the Council's employees to leave as at the 1 April for the previous financial year.

Regulations prohibit Council tax payers from being charged for this provision, so any movement in this provision is transferred to the Accumulated Absences Account.

The Council accounts for employee benefits in accordance with the Code which is based on IAS 19. The underlying principle of IAS 19 is that an organisation should account for employment and post-employment benefits when employees earn them and the authority is committed to providing them, even if the actual provision might be many years into the future.

5.3 Reserves
Reserves are divided into usable and unusable reserves. Within the usable reserves there are amounts set aside for earmarked purposes out of the balances on the Council's funds.

6 Balance Sheet - Financial Instruments

6.1 Financial Assets

IFRS 9 requires three different models to be applied to the classification and measurement of financial assets, based on the business model used:

1.	Assets held to collect contractual cash flows	Held at amortised cost
2.	Assets held to collect contractual cash flows and sell	Held at Fair value through other comprehensive income
3.	Other, not 1 or 2	Held at Fair value through profit and loss

The council currently only has significant financial assets that meet criteria 1, so these are held at amortised cost. This means that interest receivable is recorded through profit and loss using the effective interest rate, and any impairment is also recorded through profit and loss.

Impairment of financial assets is applied based on a three stage model:

1. Performing
2. Under-performing
3. Non-performing

The stage used for financial assets depends upon the credit of quality of the assets, which is assessed each year. For this Statement of Accounts, all financial assets have been assessed as performing. Performing financial assets are impaired on the basis of 12 month expected losses and gross interest is applied. For trade receivables with no significant financing component, the council uses the simplified model permitted by IFRS, which is to impair on the basis of lifetime expected losses.

6.2 Premature Redemption of Debt

The practice for the Comprehensive Income and Expenditure Statement is to amortise premia and discounts over a period which reflects the life of the loans with which they are refinanced determined as described below. This will not be followed in the following situations:

- Where it is permissible and advantageous to capitalise premia (in which case the question of amortisation will not arise)
- Where the loans redeemed are not refinanced (when premia and discounts will be taken directly to the Revenue Account)
- Where discounts and premia are amortised over a broadly similar period, for convenience they will be shown as a net figure.

The practice for the HRA is different. In this case, discounts and premia are amortised, individually, over the remaining life of the loan repaid or ten years, whichever is the shorter.

6.3 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure

Statement in the year of repurchase / settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount respectively would be deducted from or added to the amortised cost of the new or modified loan and the write down to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement spread over the life of the loan by an adjustment to the effective interest rate.

Where premia and discounts have been charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund balance to be spread over future years. The Council has a policy of spreading the gain / loss over the term of the replacement loan, at present up to a maximum of thirty years. The reconciliation of amounts charged to the surplus or deficit on the provision of services section in the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

7 Capital Financing

7.1 Capital Expenditure
Capital expenditure on building assets is added to the value of the asset and depreciated over the remaining useful life.

Capital expenditure on HRA dwellings is added to the value of fixed assets.

Revenue expenditure funded from capital under statute (REFCUS) represents expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets owned by the Council. Such revenue expenditure incurred during the year has been written off as expenditure to the relevant service revenue account in the year.

7.2 Capital Government Grants and Contributions
Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received.

7.3 Leasing
The Council has acquired a number of assets, mainly vehicles, plant and computer equipment, by means of leases. The Council assesses whether or not leases have to be disclosed on balance sheet in line with IAS 17, using guidance from the Royal Institute of Chartered Surveyors as directed by the CIPFA. Where the terms of the lease transfer substantially all the risks and rewards incidental to ownership leases are recorded on balance sheet as finance leases, other leases not reported on the balance sheet are known as operating leases.

Finance leases are initially recognised on the balance sheet with assets and liabilities equal to the net present value of the minimum lease payments. Where a contract does not detail an interest rate for a specific asset, or provide sufficient information for its calculation, the interest rate implicit in the lease will in the first instance be estimated based on interest rates for other assets within the lease. If there is no interest rate detailed in the lease then a suitable interest rate is applied.

Assets financed by finance leases are treated as having an economic life equal to the minimum length of the contract and are depreciated over this period.

Finance lease repayments and interest payments are calculated using the actuarial method (allocating interest to the period it relates to) and assumes that a single payment is made at the end of the contract year. Where a contract starts part way through a single financial year payments will be apportioned to that financial year based on the number of days of the contract year within the reported financial year.

Rentals payable under operating leases are charged to revenue in the year in which they are paid and no provision is made for outstanding lease commitments.

Two interpretations of the International Financial Reporting Standards apply to contracts and series of transactions where the substance of the contract or transactions may be a lease under International Financial Reporting Standards. The Council first assesses whether or not contracts contain a service concession under IFRS Interpretations Committee (IFRIC) 12, and then whether or not there is an embedded lease under IFRIC 4. The disclosure of service concessions is complex and dealt with in further detail below. Embedded leases are disclosed as set out in IFRIC 4, accounting policies for major embedded finance leases are set out below.

Implementation of IFRS 16 Leases for Local Government has been delayed until 2020/21, as such there are no changes to current year's accounting policy.

From 2020/21 under IFRS 16 lessees are required to remove the lease classifications of operating and finance leases, instead it requires that a right-of-use asset be recognized for all leases (with the exemptions for short-term and low value leases) with a corresponding lease liability representing the lessee's obligation to make leases payments for the asset.

For lessors, the finance and operating lease classifications have been retained and the provision for lessors are substantially unchanged, although there are some changes in relation to sale and lease back transactions and the accounting for the structure of sub-leases.

In accordance to the Code of Practice the estimated impact of the change has been disclosed in the accounts.

7.3.1 Service Concessions and the Private Finance Initiative (PFI)

Contracts and other arrangements that have been determined as "service concessions" are accounted for under IFRIC 12, the Code of Practice and the additional provisions of IPSAS 32 Service Concession Arrangements: Grantor.

Where new assets are identified these assets are recognised at fair value being the relevant elements of the capital cost in the PFI operators' financial model.

Where the PFI operator's right to third party income is recognised in reductions to the unitary payment, a proportion of the finance lease creditor is re-allocated to a deferred income balance based on the proportion of fixed payments (if any) from the Council and expected third party payments. The deferred income balance is amortised to the Comprehensive Income and Expenditure Statement on a straight line basis over the life of the PFI scheme.

The Council's ongoing liabilities for these service concessions are recognised on the balance sheet. This has been done by recognising a finance lease creditor and written down accordingly.

The assets acquired with these service concessions will be depreciated over the useful estimated economic life of the assets; with the exception of the assets generated by a Social Housing PFI. Legal title to the majority of assets from the Social Housing PFI will remain with the PFI operator, so these assets will be depreciated over the life of the contract, not their useful economic life.

Lifecycle costs will be capitalised in line with the directions of the Code of Practice on capitalising expenditure for these service concessions. All lifecycle costs for the Street lighting PFI are treated as revenue maintenance expenditure due to the nature of maintaining street lighting.

7.4 Minimum Revenue Provision

The Minimum Revenue Provision (MRP) included within this year's Statement of Accounts has been calculated on the basis of the previous year's outturn position, amended for the inclusion of PFI projects as per the requirements of the International Financial Reporting Standards. In accordance with the current regulations for the calculation of MRP the following policy for non-HRA assets has been applied:

> *For supported borrowing, the Council will use the asset life method (Option 3) and an 'annuity' approach for calculating repayments. Based on the useful economic lives of the council's assets a single annuity has been calculated, which results in the outstanding principal being repaid over the course of one hundred years.*
>
> *For prudential borrowing, the Council will adopt Option 3, 'the asset life method', and an 'annuity' approach for calculating repayments. This option allows provision for repayment of principal to be made over the estimated life of the asset. The use of the 'annuity' method is akin to a mortgage where the combined sum of principal and interest are equalised over the life of the asset.*
>
> *The proposed asset lives which will be applied to different classes of assets are as follows:*
>
> - *Vehicles and equipment – 5 to 15 years;*
> - *Capital repairs to roads and buildings – 15 to 25 years;*
> - *Purchase of buildings – 30 to 40 years;*
> - *New construction – 40 to 60 years;*
> - *Purchase of land – 50 to100 years (unless there is a structure on the land with an asset life of more than 100 years, in which case the land would have the same asset life as the structure).*
>
> *The Council reserves the right to charge a nil MRP where it chooses to offset a previous year's overpayment.*

These policies do not apply to HRA assets.

The statutory guidance in the Guidance on Minimum Revenue Provision (second edition) from the Department of Communities and Local Government directs local authorities to make an

MRP charge equal to the writing down of the finance lease liability upon transition to IFRS, and a charge equal to the writing down of the finance lease liability in subsequent years for operating leases reclassified as finance leases. It states that this is equivalent to one of the other options provided by the guidance for MRP in other circumstances. In order to ensure consistent treatment of all finance leases, an MRP charge equal to the writing down of the finance lease liability will be made for all finance leases.

In line with the statutory guidance on Minimum Revenue Provision (MRP), MRP has been charged for PFIs at a rate equal to the writing down of the finance lease liability. In addition, to ensure that all capital costs are captured by MRP, MRP includes a charge equal to any capital lifecycle additions within the scheme, and a charge equal to the release of any deferred income. Where finance lease liabilities increase in year, this is recognised by a credit to MRP equal to the increase in liability. The net effect of this policy is to maintain revenue balances at the same level under IFRS as under UK GAAP which is considered the prudent course of action within Guidance on Minimum Revenue Provision.

Minimum Revenue Provision is charged against the General Fund in the Movement in Reserves statement.

7.5 Income from the Sale of Plant property and equipment

Income from the disposal of Property, Plant and Equipment is known as capital receipts. Such income that is not reserved and has not been used to finance capital expenditure in the period is included in the balance sheet as capital receipts unapplied.

The treatment of HRA capital receipts is determined by the Local Government Act 2003 as amended from 1 April 2012 in order to make new provision for the pooling of housing receipts by:

- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No. 2) Regulations 2012 (SI 2012/711); and
- The Local Authorities (Capital Finance and Accounting) (England) (Amendment) (No.3) Regulations 2012 (SI 2013/1424).

As a result of these amendments, local authorities are able to retain the receipts generated by Right to Buy sales for replacement housing provided they can sign up to an agreement with Government that they will limit the use of the net Right to Buy receipts to 30% of the cost of the replacement homes within a 3 year period from the point of receipt. The London Borough of Brent has elected to enter into agreement with the Government to retain the net receipts from Right-to-Buy sales.

The regulations provide that receipts from Right-to-Buy sales will in future be applied as follows:

- the council may deduct certain costs, namely: an amount to cover the housing debt supportable from the income on the additional Right to Buy sales; transaction and administration costs; and an amount which reflects the income the council might reasonably have expected from Right to Buy sales prior to the new scheme;

- The council must also pay the Government an amount which reflects the income which the Treasury expected from Right to Buy sales prior to the new scheme; and

- Once these costs are deducted, the remaining net receipts are available to fund (and must be applied to) replacement affordable rented homes.

7.6 Borrowing Costs
The Council may borrow to meet capital costs that are attributable to the acquisition, construction or production of a qualifying asset that has a life of more than one year. It is the Council’s policy to capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset. Borrowing costs will be deemed as interest and other costs that the Council incurs in connection with the borrowing of funds, and a qualifying asset will be that which takes in excess of three years to get ready for intended use and has forecast expenditure in excess of £100m. Cessation of capitalisation will occur when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

8 Group Accounts

The Group Accounts have been prepared on the basis of a full consolidation of the financial transactions of the Council, its subsidiaries I4B Holdings Limited (I4B), First Wave Housing Limited (FWH) (formerly Brent Housing Partnership [BHP]), the Barham Park Trust and LGA Digital Services Limited. FWH was an Arm’s Length Management Organisation (ALMO), but in 2017/18 the Council took back the management of its housing stock. FWH remains as a company which owns some housing independently of the Council. The Council remains the holder of the sole share in FWH. Barham Park Trust is a charity that is controlled by the council as a result of the council appointing all the trustees. LGA Digital Service Limited is 50% owned by the council and 50% owned by the Local Government Association (LGA), but is controlled by the Council, which provides the company with 100% of the services it sells. The financial statements in the Group Accounts are prepared in accordance with the policies set out above.

I4B Holdings Limited records the properties it purchases as investment properties in its Statement of Accounts which are reported under FRS 102 as I4B holds these properties principally to generate a commercial return. When these properties are consolidated into the council’s accounts, they are consolidated as Plant, Property and Equipment as this reflects the fact that the Group accounts are under IFRS, which has a slightly different definition of Investment Properties, and these properties are used to provide services on behalf of the group.

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A&SAC FORWARD PLAN / WORK PROGRAMME

Topic / Date	March 11, 2020	April 20, 2020
Internal Audit & Investigations		
Internal Audit Counter Fraud Annual Report, including Audit Opinion		
Review Internal Audit Charter - Annual		
Internal Audit and Counter Fraud Progress Reports - Quarterly		
Draft Internal Audit and Investigations Annual Plan	X	
RIPA Update		X
External Audit		
External Audit progress report and Sector update	X	
External Audit plan	X	
External Audit - Certification of grants and returns	Received at the last meeting	
Statement of Accounts & External Auditor's Report		
External Auditor Annual Audit Letter		
Financial Reporting		
Treasury Management Mid-term Report		
Treasury Management Strategy & Annual Investment Strategy		
Brent Council Borrowing Strategy Update		
Accounting Policies	X	
Treasury Management Outturn Report		
Governance		
To review performance & management of i4B Holdings Ltd and First Wave Housing Ltd		
Review of the use of RIPA Powers		X
Receive and agree the Annual Governance Statement		X
Risk Management		
Strategic Risk Register Update		X
Emergency Preparedness - Peer Review		
Audit Committee Effectiveness		
Review the Committee's Forward Plan	X	X (New dates are being finalised in the Annual Council Calendar)
Review the performance of the Committee (self-assessment)		
Determine and Deliver Training Requirements for Audit Committee Members as required		
Standards Matters		
Quarterly update on gifts and hospitality		X
Annual Standards Report		X
To consider the Council's response to the report on local government ethical standards issued by the Committee on Standards in Public Life		
Review of the Member Development Programme and Members' Expenses	X	

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