

The Audit Findings for the London Borough of Brent

Year ended 31 March 2020

8 September 2020



Contents



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Section

1. Headlines
2. Financial statements
3. Value for money
4. Independence and ethics

Page

3
5
19
28

Appendices

- A. Action plan
- B. Follow up of prior year recommendations
- C. Audit adjustments
- D. Fees
- E. Audit Opinion

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

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of the London Borough of Brent ('the Council') and the preparation of the group Council's financial statements for the year ended 31 March 2020 for those charged with governance.

<p>Covid-19</p>	<p>The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the group and Council. The Council has dealt with the administration of grants to businesses, getting PPE to frontline carers, the closure of schools, building additional mortuary capacity, staff re-deployment, securing accommodation for rough sleepers, the provision of critical-only services during lockdown, and then the additional challenges of reopening services under new government guidelines.</p> <p>Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.</p>	<p>We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 20 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.</p> <p>Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including the remote accessing of financial systems, video calling, and verifying the completeness accuracy of information produced by the entity through screensharing.</p> <p>The Council has produced one of the best performances during lockdown of our London client base – timely accounts, good working papers and a responsive attitude to audit queries reflect really well on the Council from an audit perspective. The finance team responsible for the production of the financial statements worked at full capacity throughout lockdown, publishing the draft financial statements by 5 June, well in advance of the revised national deadline. The finance team were very responsive to audit queries during the course of the audit, testament to the way that they have embraced remote working and are facilitated by the Council's IT infrastructure and having access to the relevant financial systems.</p>
<p>Financial Statements</p>	<p>Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the group and Council's financial statements:</p> <ul style="list-style-type: none"> • give a true and fair view of the financial position of the group and Council and the group and Council's income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. <p>We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p>	<p>Our audit work was completed on remotely during July-August. Our findings are summarised on pages 6 to 18. We have identified no adjustments to the financial statements that have resulted in adjustment to the Council's Comprehensive Income and Expenditure Statement. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.</p> <p>Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters;</p> <ul style="list-style-type: none"> • The bad debt provision and group accounts – there are two outstanding queries with possible non-material adjustments to be made; • Whole of Government accounts consolidation pack audit procedures – we await receipt of the completed consolidation pack; • receipt of management representation letter; and • review of the final set of financial statements. <p>We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation.</p> <p>Our anticipated audit report opinion will be unqualified but with an Emphasis of Matter paragraph in relation to material uncertainties with regards to PPE valuation – refer to page 8 for further detail.</p>

Headlines continued

Value for Money arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VfM) conclusion').

We have completed our risk based review of the Council's value for money arrangements. We have concluded that the London Borough of Brent has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We have updated our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VfM risks in relation to Covid-19.

We therefore anticipate issuing an unqualified value for money conclusion, as detailed in Appendix E. Our findings are summarised on pages 19 to 27.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- To certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code but are unable to issue our completion certificate until we are able:

- to complete our work on the Council's Whole of Government Accounts consolidation pack; and
 - issue our report on the consistency of the pension fund financial statements once the Pension Fund Annual Report has been prepared.
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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

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

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

Audit approach

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

- An evaluation of the group's internal controls environment, including its IT systems and controls;
- An evaluation of the components of the group based on a measure of materiality considering each as a percentage of the group's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that specified audit procedures for i4B and FWH balances was required, which were completed by the audit team; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our audit plan, as communicated to you on 20 April 2020, to reflect our response to the Covid-19 pandemic as set out on page 6.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Standards Committee meeting on 8 September 2020, as detailed in Appendix E. These outstanding items are outlined on page 3.

Our approach to materiality

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

Materiality levels remain the same as reported in our audit plan.

	Group amount (£)	Council amount (£)	Qualitative factors considered
Materiality for the financial statements	16,700,000	16,600,000	1.5% of prior year gross expenditure
Performance materiality	12,525,000	12,450,000	75% of materiality
Trivial matters	835,000	830,000	5% of materiality
Materiality for senior officers' remuneration and related party transactions	830,000	830,000	Lower level of precision for detecting errors in these specific accounts

Significant audit risks

Risks identified in our Audit Plan

Covid-19

The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:

- Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation;
- Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates;
- Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and
- Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.

We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement

Improper revenue recognition

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

Auditor commentary

We:

- Worked with management to understand the implications the response to the Covid-19 pandemic had on the Council's ability to prepare the financial statements and update financial forecasts and assessed the implications on our audit approach;
- Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arose;
- Evaluated the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic;
- Evaluated whether sufficient audit evidence using alternative approaches could be obtained for the purposes of our audit whilst working remotely;
- Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances; and
- Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

We rebutted the risk at the planning stage of our audit. No circumstances arose that indicated we would need to reconsider this judgement.

Findings

There are no issues to bring to your attention.

Significant audit risks continued

Risks identified in our Audit Plan

Auditor commentary

Management override of controls

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 Council faces 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 the group, which was one of the most significant assessed risks of material misstatement.

We:

- Evaluated the design effectiveness of management controls over journals;
- Analysed the journals listing and determined the criteria for selecting high risk and unusual journals;
- Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration, and considered the impact of IT control weaknesses within this testing (refer to page 17);
- Gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence; and
- Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

Valuation of pension fund net liability

The pension fund net liability, as reflected in the Council'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 Council'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:

- Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls;
- Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;
- Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;
- Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;
- Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;
- Considered the impact of Covid-19 in the net assets statement; and
- Undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performed additional procedures suggested within the report. In particular, reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update.

Findings

Subject to completion of outstanding procedures, there are no issues to bring to your attention.

Significant audit risks continued

Risks identified in our Audit Plan

Auditor commentary

Valuation of land and buildings

The Council 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 Council'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:

- Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work;
- Evaluated the competence, capabilities and objectivity of the valuation expert;
- Discussed with and wrote to the valuer to confirm the basis on which the valuation was carried out;
- Engaged our own valuer expert, Gerald Eve, to provide commentary on:
 - the instruction process in comparison to requirements from CIPFA/ IFRS / RICS;
 - the valuation methodology and approach, resulting assumptions adopted and any other relevant points; and
 - the valuation methodology and approach of the South Kilburn development revaluation exercise, resulting assumptions and any other relevant points.
- Challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding;
- Tested revaluations made during the year to see if they had been input correctly into the Council's asset register; and
- Evaluated the assumptions made by 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.

Findings

The valuer included in their report a material uncertainty paragraph with regards to the movement of property prices and valuations as a result of Covid-19. Given the magnitude of the PPE valuation to the balance sheet and the caveat made by the valuer in his valuation report, we will highlight the material uncertainty in our audit report, in an Emphasis of Matter (EOM) paragraph, drawing attention to the disclosure made in the statement of accounts.

The EOM paragraph does not qualify the opinion but will refer to the matter of the disclosure on the material uncertainty stated by the valuer included in the final version of the accounts that, in our judgement, is of such importance that it is fundamental to users' understanding of the financial statements.

Our testing of revalued assets identified potential discrepancies between the asset floor areas used for valuations and those held in Council records. As a result of our challenge, and to address the wider material uncertainty around property valuations due to Covid-19, the Council carried out and commissioned the following work:

- A review of the impact of Covid-19 on property valuations as at 31/3/20 and as at 31/7/20;
- A review of the property plans and areas recorded for Council schools and other key buildings against the areas used for the valuation – where significant discrepancies were identified, a third party review of the area used for the valuations was carried out by an independent MRICS valuer.

The result of this work identified a £1.989m net reduction to the value of land and buildings, which is supported by a £3.62m debit to the CIES (which is reversed out of the CIES in the Movement in Reserves Statement, so there is nil impact to usable reserves) and a £1.631m credit to the revaluation reserve. We have reviewed the updated valuation report and proposed accounting entries and are satisfied with the treatment – see page 32 for the audit adjustments.

Other audit risks

Risks identified in our Audit Plan

IFRS 16 implementation has been delayed by one year

Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

Auditor commentary

In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.

Recommendation

In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provision for NDR appeals - £4.2m	<p>The Council is responsible for repaying a proportion of successful rateable value appeals. Management calculates the level of provision required based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. In 2019/20 the provision is £4.2m, a decrease of £4m from the prior year. The reason for the movement is that the provision has been redistributed between each of the perception authorities to include central government – in 2018/19 central government did not have a share in the provision as 100% of the rates were retained between the Council and the GLA.</p>	<p>The draft Statement of Accounts includes an accounting policy for the NDR appeals provision.</p> <p>Our review of the NDR provision calculation confirms that appropriate information has been used to determine the estimate and the decrease is reasonable.</p> <p>The disclosure of the NDR appeals provision within the financial statements is adequate.</p>	 GREEN
Land and Buildings – Council Housing - £618.5m	<p>The Council owns 7,794 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer, Wilks Head & Eve LLP, to complete the valuation of these properties. The year end valuation of Council Housing was £618.5m, a net increase of £16.3m from 2018/19 (£602.2m). There was also a net increase of 43 dwellings between 2018/19 to 2019/20 in relation to Right-to-Buy sales, regeneration programmes and transfer of dwellings from the HRA to the General Fund to be used for temporary accommodation.</p> <p>The valuer's statement with regards to material uncertainty of property prices and valuations as a result of Covid-19 also applies to the Council's portfolio of dwelling properties.</p>	<ul style="list-style-type: none"> • The Council's valuer Wilks Head & Eve LLP (WHE) last valued the entire housing stock on 1 April 2016 using the beacon methodology. For 2019/20 the valuer reviewed market changes from 1 April 2019 to 31 March 2020 to correctly state the value of the HRA stock held by the Council during the financial period in current terms. Market reviews have been provided to the Council each financial year since the last full valuation. • We have assessed the Council's valuer, WHE, to be competent, capable and objective. • We engaged our own valuer expert, Gerald Eve, to provide commentary on the instruction process for WHE, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • The valuation method remains consistent with the prior year. • We have been able to roll forward our sample testing of beacon properties from 2018/19 and have no issues to report. • We confirm that the estimate is consistent against valuation trends of similar properties (Gerald Eve report) with house prices for outer London council dwellings having growth of 2-3%. • We have agreed the HRA valuation report to the Statement of Accounts. 	 GREEN

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £993.5m	<p>Other land and buildings comprises £683.6m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£305.5m) are not specialised in nature and are required to be valued at existing use in value (EUUV) at year end. The Council has engaged Wilks Head & Eve LLP to complete the valuation of properties as at 1 April 2019 on a five yearly cyclical basis. 47% of total assets were revalued during 2019/20. The valuation of properties valued by the valuer has resulted in a net increase of £186.9m. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2019, based on the market review provided by the valuer as at 31 March 2020, to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued has identified no material change to the properties' value. The total year end valuation of other land and buildings was £989.1m, a net increase of £190.5m from 2019/10 (£798.6m).</p> <p>In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue within its Key Judgements and Material Estimates disclosure in the Statement of Accounts.</p>	<ul style="list-style-type: none"> • We have assessed the Council's valuer, Wilks Head & Eve LLP, to be competent, capable and objective. • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate – refer to page 8 for our findings. • The valuation method remains consistent with the prior year. • We confirm consistency of the estimate against the Gerald Eve report, and reasonableness of the increase in the estimate. • We have agreed the General Fund valuation report to the Fixed Asset Register and to the Statement of Accounts. 	 GREEN

Significant findings – key estimates and judgements

Accounting area	Summary of management’s policy	Auditor commentary	Assessment																						
Net pension liability – £660.2m	<p>The Council’s net pension liability at 31 March 2020 is £660.2m (PY £918.7m) comprising the London Borough of Brent Local Government Pension Scheme. The Council uses Hymans Robertson to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years.</p> <p>The latest full actuarial valuation was completed in 2019. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £258.5m net actuarial gain during 2019/20.</p>	<ul style="list-style-type: none"> We have assessed the Council’s actuary, Hymans Robertson, to be competent, capable and objective. We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019/20 roll forward calculation carried out by the actuary and have no issues to raise. We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions: 	 <p>GREEN</p>																						
		<table border="1"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.3%</td> <td>2.3%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Pension increase rate</td> <td>1.9%</td> <td>Between 2%-1.8%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Salary growth</td> <td>2.2%</td> <td>Between 1.9%-2.9%</td> <td style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>Pensioners: 22.1 years Non-pensioners: 23 years Used CMI 2018 Model with long term improvement rate of 1.25%</td> <td rowspan="2">Scheme specific but would expect actuary to calculate using the CMI 2018 Model with long term improvement rate of 1.25% pa</td> <td rowspan="2" style="text-align: center;">● GREEN</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>Pensioners: 22.1 years Non-pensioners: 23 years Used CMI 2018 Model with long term improvement rate of 1.25%</td> </tr> </tbody> </table>	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.3%	2.3%	● GREEN	Pension increase rate	1.9%	Between 2%-1.8%	● GREEN	Salary growth	2.2%	Between 1.9%-2.9%	● GREEN	Life expectancy – Males currently aged 45 / 65	Pensioners: 22.1 years Non-pensioners: 23 years Used CMI 2018 Model with long term improvement rate of 1.25%	Scheme specific but would expect actuary to calculate using the CMI 2018 Model with long term improvement rate of 1.25% pa	● GREEN	Life expectancy – Females currently aged 45 / 65	Pensioners: 22.1 years Non-pensioners: 23 years Used CMI 2018 Model with long term improvement rate of 1.25%	
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Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £660.2m continued		<ul style="list-style-type: none"> • As part of the procedures we undertook to review the actuarial assumptions we performed additional procedures, in particular reviewing the adjustments made as a result of the McCloud judgement and considering the impact of the 'other experience' adjustment arising from the updating of member data as part of the 2019 triennial actuarial update. • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2019/20 to the valuation method. • We conducted an analytical review to confirm reasonableness of the Council's share of LGPS pension assets. • Our work confirms that the increase in the IAS 19 estimate is reasonable. 	 GREEN

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – going concern

Our responsibility

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

Going concern commentary

Management's assessment process

The Council's accounts have been prepared on the going concern basis. Public sector bodies are assumed to be going concerns where the continuation of the provision of a service in the future is anticipated, as evidenced by inclusion of financial provision for that service in published documents.

Auditor commentary

We have subjected the 2020/21 budget, MTFS to 2022/23 and cash flow forecast to September 2021 to detailed scrutiny and reviewed the planned savings proposals for 2020/21 and 2021/22 in our consideration of the appropriateness of management's use of the going concern assumption.

In 2020/21 the Council expects to achieve a balanced budget, noting additional costs/loss of income due to Covid-19 plus savings shortfall of £19.2m. Additional funding from central government for income loss will reduce this overspend but at this point in time it is unclear how much of Covid-19 related costs will be met by central government. If central government does not meet all Covid-19 related costs the Council will need to meet the costs by utilising its earmarked reserves. However, the Council's reserves position is strong, and financially it is one of the better placed London boroughs. Refer to detailed findings on pages 21 to 24 of this report.

The Covid-19 pandemic has also resulted in a number of underspends in 2020/21 service area budgets due to a reduced level of non Covid-19 related activity. Service areas have been tasked with identifying and holding these underspends and details will be reported in quarter 2.

Conclusion

The Council's reserves position is strong. At 31 March 2020 the Council's total usable reserves, excluding capital reserves, stood at £134.8m – refer to page 24 of this report for further analysis of this balance. Brent is in a much stronger financial position than virtually all other London boroughs, although as reported to members, the non-earmarked reserves position is relatively low but within the expected range for London borough councils. The Council is also able to look to further borrowing with a Capital Financing Requirement of £684.6m and current borrowing levels at £603m this gives additional headroom of £81m for future borrowing.

The Council has included Events after the Reporting Period disclosure in the Statement of Accounts in relation to the impact of Covid-19.

We have not identified any material uncertainty about the Council's ability to continue as a going concern.

Other matters for communication

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

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council, which is included in the Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking, investment and borrowing institutions. This permission was granted and the requests were sent. All requests were returned with positive confirmation.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations/significant difficulties	All information and explanations requested from management were provided.

Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a numbers of areas:</p> <ul style="list-style-type: none"> • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. Our work in this area is in progress and will be complete in line with the national deadline.</p>
Certification of the closure of the audit	<p>We are unable to certify the closure of the 2019/20 audit of the London Borough of Brent in the audit report, as detailed in Appendix E, until the work on the WGA consolidation pack is complete.</p>

Internal controls

The purpose of an audit is for the auditor to express an opinion on the financial statements. Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of internal control. The matters we identified during the course of our audit are set out in the table below. These and other recommendations, together with management, are included in the action plan at Appendix A.

Assessment	Issue and risks	Recommendations
1  MEDIUM	<p>Aged Collection Fund debtors and creditors</p> <p>In our testing of the Council's Collection Fund debtors and creditors we have identified items over 6 years old with little prospect of clearing that should be considered for write off.</p> <p>We tested 9 Collection Fund debtor items and 5 of these were over 6 years old (ranging between 2006-2013) without agreed repayment payment plans in place.</p> <p>We tested 5 Collection Fund creditor items and 2 of these were over 6 years old (ranging between 1993-2003) without agreed repayment payment plans in place.</p>	Review Collection Fund debtor and creditor amounts over 6 years and consider for write off.
2  MEDIUM	<p>Creditors – purchase order accruals</p> <p>Our testing of PO accruals identified that 4/12 items tested should have been cleared or cancelled and not included in the year end population. We have extrapolated the total amount of these 4 items across the PO accrual population to identify a possible error of £830,753.</p>	Processes should be in place to ensure that PO accruals are cleared or cancelled if they are no longer required.
3  MEDIUM	<p>Unallocated income</p> <p>Our testing of 44 income items identified 2 items of 'unallocated income' whereby the Council has been unable to ascertain the origins of the income. Instead of being allocated to the relevant service area the income is allocated to 'Central Items. In total there is £2.8m of unallocated income in the 2019/20 Accounts.</p>	Ensure that unidentified income received is traced to its source to ensure the income is valid and correctly classified.
4  MEDIUM	<p>Housing benefit expenditure</p> <p>The Council is unable to fully reconcile non-HRA expenditure charged to the CIES and the non-HRA expenditure recorded in the Northgate system. Non-HRA expenditure recorded in Northgate is £3.6m higher than that recorded in the general ledger.</p>	Fully reconcile Housing Benefit expenditure per the Northgate system to Housing Benefit expenditure recorded in the general ledger on a regular basis.

Internal controls – continued

Assessment	Issue and risks	Recommendations
5  MEDIUM	<p>Oracle security and access controls</p> <p>Control weaknesses were identified in the security and access of the Council's Oracle system. These weaknesses include:</p> <ul style="list-style-type: none"> • Segregation of duties conflict between Oracle systems administrators with finance and developer responsibilities. • Generic and built in Oracle accounts with additional responsibilities assigned and the ability to bypass workflows. • Users with access to Oracle functions that allow workflows to be bypassed. • Users with Oracle access that allow high risk activity to occur (critical security functions and SQL injection). • Users self-assigning responsibilities in Oracle without approval. <p>The journals work we have carried out and our review of control account reconciliations have not identified issues in any of the areas above, indicating that they are not risks of material misstatement to the 2019/20 financial statements.</p>	<p>IT audit findings to be reviewed by the Council's ICT Clienting and Applications team and any inappropriate access/responsibilities to be resolved/removed.</p>

Assessment

-  Significant deficiency – risk of significant misstatement
-  Deficiency – risk of inconsequential misstatement

Value for Money

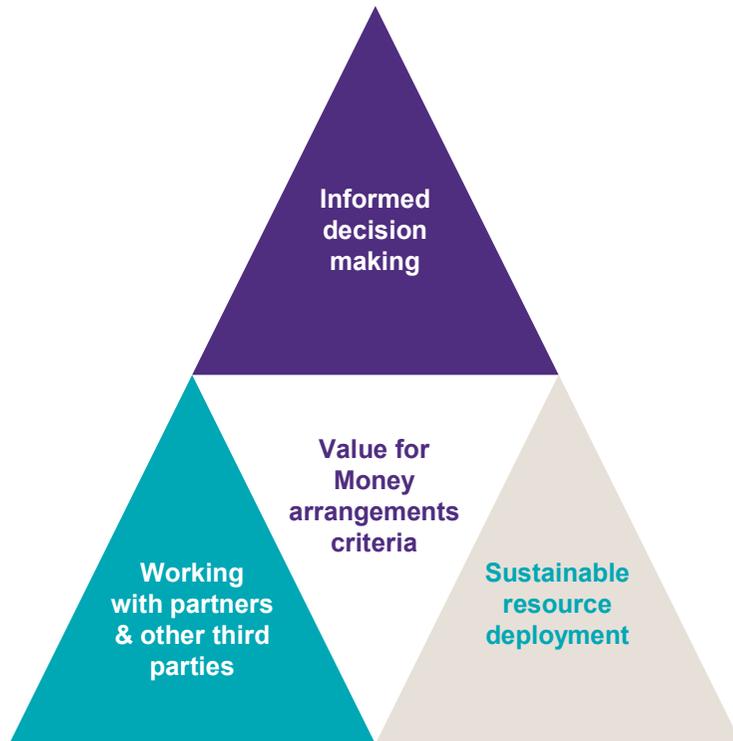
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 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:



Risk assessment

We carried out an initial risk assessment in February 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated March 2020.

We have updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. We have not identified any new VFM risks in relation to the Covid-19 pandemic.

We have continued our review of relevant documents to date, and have not identified any further significant risks where we need to perform further work. We will continue this review up to the date of issuing our report and will provide an update should any further matters arise.

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment.

Value for Money

Our work

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

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

- The Council's 2019/20 financial outturn;
- The robustness of the Council's 2020/21 budget and Medium Term Financial Strategy, including savings and income proposals; and
- The level and stability of the Council's usable reserves.
- How the Council monitors its levels of borrowings to meet its capital plans.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 21 to 27.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk: Financial outturn and sustainability

1 The risk as identified in our 2019/20 Audit Plan

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.

Findings

2019/20 Financial outturn

In a year where March saw the outbreak of the Covid-19 pandemic, the Council has performed well to achieve a breakeven position for its service area budgets. The Council responded to the pandemic situation quickly, making critical decisions in response to constantly moving government guidance. With only 2 weeks remaining of the 2019/20 financial year with the outbreak of the pandemic, impact on the financial outturn was minimised for 2019/20 but will be a larger impact on 2020/21.

The outturn for 2019/20 highlights the effective management action taken to address the pressures throughout the year. The £1.5m overspend in Children and Young Persons (CYP) (in part offset by contingency funds within CYP reserves) and £0.6m overspend in Community Well Being were offset by underspends within Regeneration and Environment.

The use of CYP earmarked reserves illustrates that the Council does have ongoing financial pressures which need to be addressed. However, this needs to be put in the context of income growth opportunities the Council's reserves position. Brent has over £134.8m of usable reserves, excluding capital reserves, which can ultimately be deployed to address in-year shortfall. To put this in further context, Brent Council could receive no RSG, council tax or business rates in 2020/21 and still balance the books using reserves. This is a much stronger position than virtually all other councils, however it must be noted that the reserves are earmarked to support strategic projects outlined in the Council's capital programme and many of these reserves cannot be used to support revenue costs. It is also worth noting that the Council is very clear about finding solutions in CYP going forwards.

Overall revenue financial position 2019/20

	Budget (£m)	Actual (£m)	Actual Overspend/ (Underspend) (£m)
Assistant Chief Executive	7.8	7.8	0.0
Chief Executive Department	16.6	16.6	0.0
Children and Young People	48.8	50.3	1.5
Community and Well-Being	136.6	137.2	0.6
Customer & Digital Services	21.2	21.2	0.0
Regeneration & Environment	40.2	38.1	(2.1)
Subtotal Service Area Budgets	271.2	271.2	0.0
Central items (including Business Rates, Council Tax and Specific Grants)	(271.2)	(271.2)	0.0
Total General Fund	0.0	0.0	0.0
DSG Funded Activity	0.0	4.9	4.9
Housing Revenue Account (HRA)	0.0	0.0	0.0
Overall Position	0.0	4.9	4.9

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond

The Council's MTFS set in 2019/20 identified £11.4m savings required for 2020/21 and a best estimate budget gap of £20m for 2021/22-2022/23. In the November 2019 MTFS update a comprehensive review of technical budget assumptions took place, including a review of the 2020/21 savings plans and estimated savings of £4.28m to be delivered in 2021/22 and £1.77m to be delivered in 2022/23.

As a result of the pandemic it is expected that service departments will experience income and expenditure pressures in 2020/21. The magnitude of the pressures will depend on the severity and length of the pandemic. The Council has modelled the financial impact based on lockdown periods of 3 and 6 months and has a cost tracker to estimate and record the additional pressures relating to additional expenditure, loss of income, impact on savings and capital programmes, and treasury management issues. The Council estimates the 2019/20 impact to be £0.4m while for 2020/21, a 3-month lockdown period has an estimated lost income impact of £19.8m, with another £14.9m on top of that for a 6-month lockdown. The Council reports these figures to MHCLG fortnightly.

The net cost of Covid-19 to the Council is expected to be £47.6m (£42.7m of additional income and expenditure pressures and £4.9m of slippage in savings plans), which is far in excess of the £21.2m funding to be received from central government. The cost estimates are considerable, and the Council has been working to the assumption that costs will be fully reimbursed. Central government recently announced a new package of support which includes provision for some income losses to be reimbursed where losses are more than 5% of a council's planned income from sales, fees and charges, with central government covering up to 75% of the remainder. Also, any deficits on council tax and business rates income will be allowed to be spread over 3 years rather than 1 year. Detailed workings of the scheme will be confirmed as central government drafts the statutory instrument that will effect the changes. This leaves the Council with an estimated gap of £26.4m before support for income losses is taken into account. If there is a shortfall the Council has contingency plans to keep it on a sound financial footing. The Council will use the full range of options available, including (but not limited to) taking steps to reduce demand for services, implementing further efficiency savings, streamlining processes, and as a last resort re-diverting earmarked cash reserves as a one-off measure. The Council holds general reserves of £15.1m and £146m in earmarked reserves (excluding Community Infrastructure Levy funds and other ring-fenced reserves) which are held to meet specific identified purposes or future expenditure commitments, a large proportion of which are for financing the capital programme.

The Council has modelled indicative forecasts of the council tax base and business rates income going forward. Modelling is challenging for the Council given that: the Council receives c£50m (approx. 40% of net rates payable) of additional relief from central government to further discount the bills of businesses in retail, leisure and hospitality sectors, as well as small businesses:

- the Council received c£64m from central government to provide grants (between £10k-£25k) to support the above businesses; and
- all other business rate payers having difficulty in paying were offered payment deferrals in line with central government guidance.

Due to the above, the amount of NDR income collected to date compared to budget has changed significantly, and forecasting future collection is dependent on how long different business sectors take to recover, if at all. The Council has modelled business rates collection forecast for 2020/21 for the amounts collected and to be collected over a revised collection profile, against a reduced collectible debit, to support future business rates income projections. However, the amount of business rates the Council is allowed to retain is largely dependent on the future business rates regime and the amount of section 31 grant for certain business sectors. Also, the Council is part of the London business rates pool in 2020/21. London Councils will be modelling the potential impact of a deficit on the pool and individual boroughs and the results are expected later in the year. This exercise along with other intelligence and data gathering exercises on collection rates will be critical to better understand the potential impact on the 2020/21 budget and future budget assumptions for business rates income.

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond – continued

Over the past 2 years, the Council has been addressing historic overspends and undertook a comprehensive review of demographic pressures and other expenditure pressures, ensuring the Council could move to a more sustainable financial position. Following the Covid-19 outbreak the Council's financial position has changed significantly. The impact of the loss of fees and charges, and emergency costs have had an immediate effect on all local authorities. In the longer term there is likely to be further squeeze on public spending, which could impact future funding settlement allocations.

The 2020/21 budget agreed in February 2020 included savings of £7.4m to deliver a balanced budget. Analysis shows that £0.3m of the planned savings are at risk of not being delivered at all, £2.5m of the planned savings have already been delivered, and £4.6m of the planned savings will not be delivered in 2020/21 (the Council will look to make these savings in 2021/22 instead). The 2020/21 budget also agreed business plans which included savings of £4.3m. Along with review and tracking of Covid-19 cost pressures, the savings position is being monitored daily and monthly monitoring reports and forecasts are reported to the Departmental Management Team. At this stage, all indications are that the 2021/22 savings (including the £4.6m of planned savings for 2019/20) will be achieved. Looking ahead, the savings forecasts will be reported quarterly and challenged and CMT and Cabinet, as well as the Resources and Public Realm Scrutiny Committee. As well as reporting progress of savings delivery the update reports will include mitigating actions or other interventions if there are delays in implementation or risk of delivery.

Proposed budget setting for 2021/22

Based on information available to date, the Council estimates that ongoing and recurring pressures will be in the region of £11m to £29m from 2021/22 across all service areas and council tax collection. At this stage, the estimates excludes future losses on business rates whilst further modelling is undertaken. Therefore, without additional funding or reliefs from central government the budget gap is likely to increase further. The Council's estimates will be refined over the summer and are a major factor in the construction of the 2021/22 budget. Robust and credible plans will need to be developed and agreed in February 2021 to deliver a legally required balanced budget. At this stage, it is not clear when the Spending Review will be announced, or what the LG Finance Settlement for Brent in 2021/22 will be. The lack of clarity means that the Council will need to continue to plan with little or no funding certainty over the medium term. The Council expects to need to take difficult decisions about which services to prioritise and protect, and which to reduce in order to continue to deliver affordable and sustainable budgets.

To close a gap of this magnitude and in a relatively short space of time there are 3 main options:

- Further savings – options are limited given the current savings programme already includes a significant number of efficiencies and new income generation options are likely to be limited.
- Reduce growth assumptions – the current MTFS includes £13m of annual growth but there is a risk that reducing growth assumptions will store up pressures in future years.
- Scale back the capital programme – pausing or stopping specific capital schemes funded by borrowing would free up corporate revenue budgets set aside to provide capital financing.

A further consideration is if central government introduces new interventions specifically for long term Covid-19 related pressures, such as a multi-year minimum funding guarantee to compensate local authorities for income losses beyond their control. Another option may be to allow the capitalisation of losses, which would ultimately be funded by increased borrowing. The options will be further examined to ensure their consequences are properly understood and set out for members and the outcome of the review will be presented to Cabinet as part of the draft 2021/22 budget in October 2020.

Significant risk: Financial outturn and sustainability - continued

1

2020/21 Budget and beyond – continued

The Council continues to maintain reserve levels much above those of its peers, but it is recognised that of the £398.4m total usable reserves and capital receipts reserve, £249.3m relates to reserves built up to help to finance the Council's £1bn capital expenditure plans. Excluding the capital reserves, HRA and schools' reserves leaves general fund reserves of £134.8m, which is close to the average level of reserves for London boroughs. However, the Council must carefully consider the use of its reserves to support revenue shortfalls as it is a non-recurrent source of funding, and use of reserves on a large-scale risks creating structural overspends if the Council's finances do not recover quickly and income is reduced long term. From an audit point of view, the Council has managed its revenue reserves in a way that makes it better placed than most London councils to survive the challenges of the Covid-19 pandemic from a financial perspective. This prudent approach to reserves must be continued to address the risk of future pandemics, recessions and other issues or events that may impact on the Council's financial sustainability.

CONCLUSION

Auditor view

Overall, as the reserves position shows, Brent is maintaining its GF reserve and increasing levels of earmarked reserves. It is overall one of the better placed London boroughs to survive the challenges faced in respect of LG finances and the financial impact of Covid-19. We believe the significant risk of financial outturn and sustainability is mitigated.

Significant risk: Capital programme funding

2 The risk as identified in our 2019/20 Audit Plan

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.

Findings

2019/20 Capital programme outturn

In 19/20 the Council spent £232m, 89% of the approved capital programme budget for the year. £0.6m of the £29.2m underspend will be repurposed, with the remainder added to the 20/21 capital programme. Housing makes up the largest amount of the capital spend, and within this there is £12m not spent under the i4B portfolio as viable properties were not available.

As the end of the financial year saw the outbreak of Covid-19, only a few contractors/companies ceased working on site or had reduced site activities. Activity resumed from May onwards and most of the Council’s capital programmes and projects have progressed with social distancing measures in place. There were no material impacts.

2020/21 Capital budget position

The capital programme for 20/21 has a revised budget of £350.9m. The original budget of £292.5m was approved by full Council in February, including £545m for pipeline schemes. Since February a number of proposals have been removed as decisions have been made not to take forward schemes of £15.2m, and a new scheme of £3.472m for the CCG medical centres was added. The current total of pipeline schemes is £529.9m.

Covid-19 has impacted on construction and infrastructure projects, with labour and material shortages expected. This raises a number of potential risks and considerations for the capital programme from a contractor and Council perspective. Where projects are stalled for an extended period contractors could go bust, resulting in significant delays and increased costs. Although main contractors are protected to some extent, there is no guarantee of the protection being passed to sub-contractors. From the Council’s perspective, where projects are delayed this can create cost/income pressures through a reduction or delay in the receipt of income, capital grants, and S106/CIL receipts, which are required to fund capital borrowing costs or contribute to revenue savings targets. There is also a risk that deferral of highways maintenance could lead to higher long-term costs and increased insurance claims. Risks to the capital programme are routinely tracked and monitored. Whilst the Council’s capital programme has been largely unaffected, it is predicted that the financial risks from Covid-19 could begin to impact from 20/21 depending on the length of the lockdown. Within the £13m growth assumption underpinning the 20/21 budget it is assumed that interest and debt repayment costs for the capital programme will increase by £0.2m.

Table 1 – 2019/20 Final Outturn position					
Portfolio / Programme	Revised Budget (Approved Feb20)	Outturn	Over / (Under) Spend to Budget	Over / (Under) spend split	
				2019/20 Slippage C/FWD	Under Spend for Repurposing
	£m	£m	£m	£m	£m
Corporate Landlord	10.553	5.270	(5.284)	(5.284)	–
HCIB - GF	23.190	18.057	(5.133)	(4.613)	(0.520)
HCIB - HRA	110.032	110.489	0.457	0.457	–
PRS i4B	69.749	57.471	(12.278)	(12.278)	–
Public Realm	21.172	17.446	(3.726)	(3.674)	(0.052)
Regeneration	4.049	4.178	0.129	0.129	–
Schools	10.790	9.604	(1.186)	(1.186)	–
South Kilburn	10.628	8.798	(1.830)	(1.830)	–
St Raphael's	0.988	0.652	(0.336)	(0.336)	–
Grand Total	261.151	231.965	(29.186)	(28.614)	(0.572)

Significant risk: Capital programme funding

2

The borrowing position

The Council's MTFS provides regular reviews of the capital financing budget and the MRP to ensure capital investment remains sustainable and affordable. In the past the Council has always minimised interest costs by utilising internal cash resources, however due to the reduction of cash reserves, the need for additional borrowing to finance the Council's capital programme, and the availability of cheaper borrowing, new borrowing has been undertaken in 2019/20.

A key element of the Council's financial strategy is to expand its capital investment programme so that it may deliver substantial revenue savings, e.g. the New Accommodation for Independent Living (NAIL) and Private Rented Sector (PRS) acquisition programmes are forecast to save £3.9m over the next two years. The Council plans to utilise CIL reserves to undertake major infrastructure projects and approval has been given to fund phase 2 of the PRS programme, a further £110m to i4B.

To date, major capital investment has been managed without the need to enter into new borrowing commitments, but it is not possible to continue this indefinitely. The Council's use of £230m internal cash resources to fund the capital programme has meant that the opportunity cost, in lost investment income, is £1.6m (0.7%) per year. If the £230m had instead been borrowed, a 25-year loan at 3% would have cost the Council £6.9m a year in interest payments.

The Council commissioned EY to undertake a forward borrowing strategy review in September 2019, in light of the Borrowing Strategy reported to Cabinet in September 2018 which noted the requirement to raise external funding to support the Council's capital plans. The Borrowing Strategy noted an estimated borrowing requirement of £230m over the period 2019/20 to 2020/21 to address the projected Capital Financing Requirement associated with the expected capital spend. The Council wanted to explore a forward starting loan of up to £40m, and potentially higher given the affordable borrowing limit of £1.2bn, with legal completion desired by 31 December 2019 for a drawdown in 2020. EY assessed the Council's borrowing requirement and evaluated the on-balance sheet debt financing options available to best meet its funding needs. The remit was to take into due consideration the overarching desire to secure certainty of funds at relatively low costs, in particular assessing value for money versus PWLB financing, while retaining flexibility to delay funds. The work was carried out based on EY's understanding of the Council's financing objectives, the CFR and forecasts for the 5-year period to 2023/24. The Council has set aside a £10m provision for MRP which will need to be reviewed regularly to ensure the Council is accounting for debt repayment appropriately through the general fund.

The EY review estimated the total funding requirement for the 5-year period to be c£206m, with the first drawdown not required until 20/21. Suitability of funding markets indicated that due to the ability to secure forward funding and the diversification benefit of the strategy, particularly with respect to the current low interest rate environment and the saturation of PWLB as a funding source, the Private Placement (PP) market appears to be the most attractive funding source for the Council. Although PWLB borrowing is considered low cost, the EY analysis of VFM/discounted cash flow of a delayed PP versus immediate PWLB financing shows broadly comparable costs on a NPV basis, if the full £206m was funded immediately through PWLB. The strategy allows the Council to capitalise on current low interest rates and lock in the cost of funds now rather than risk higher PWLB rates in the future. An additional benefit is that the Council would avoid paying cash interest upfront, estimated to be c£11.2m over 4 years.

The PP market is still a relatively new sector for investors and the Council's strategy is to minimise execution risk by first targeting a modest quantum for its debut issue and, following feedback and bids received, consider upsizing of the debut transaction or re-enter the market at a future date. This strategy minimises the risk of over-leveraging the Council if the capital programme slips. There is a cost to changing the terms of a committed forward borrowing in the PP market so it is recommended by EY that the Council seek to address its projected funding requirement via PPs, structured through a series of delay drawdown tranches to match the committed/minimum annual level of capex, supplemented by PWLB loans if required.

Significant risk: Capital programme funding

2

The borrowing position – continued

Subsequently, in October 2019 HM Treasury announced an increase to PWLB lending rates from 80bps to 180bps. This would result in a pricing benefit in using the PP market, a significant positive NPV benefit for delayed funding. The change in PWLB rates also strengthens the merits of diversifying funding and reducing reliance on the PWLB market. The other funding options reviewed by the Council include the Municipal Bonds Agency and banks. As set out in the Treasury Management Strategy, the Council has an internally set authorised borrowing limit of £1.2bn. As at December 2019 external borrowing amounted to £491m. Review of the Council’s capital financing modelling shows sensitivity analysis of the borrowing requirement for 19/20 to 20/21 to range between £65m-£87m on the basis of 25-35% slippage in the capital programme.

In March 2020 the Council raised £80m unsecured, fixed rate, amortised loans from the Private Placement market. The Council achieved credit spreads of over 60-80 basis points discount on the margin offered by PWLB. This borrowing will fund the Council’s ambitious housing and regeneration plans which will have a pivotal role to play in the Borough’s post-Covid-19 recovery plans.

Minimum Revenue Provision (MRP)

The Council’s planned MRP to 2024/25 is set out below:

£M	2019/20 forecast	2020/21 budget	2021/22 budget	2022/23 budget	2023/24 budget	2024/25 budget
MRP	10.2	10.2	11.8	13.6	13.1	13.1
TOTAL	10.2	10.2	11.8	13.6	13.1	13.1

Management has instructed officers to conduct a root and branch review of the capital programme to identify suitable schemes that could be paused or stopped altogether, with a view to contributing to relieving Covid-19 budget pressures. The outcome of this (completion planned for September with report to CMT in October) should deliver MRP savings. To a large extent, the Council’s current MRP charges are driven by past decisions so MRP changes are not significant, but for those capital schemes funded from revenue contributions/reserves and/or borrowing, the revenue savings could be substantial. Due to the uncertainty of this area the Council continues to monitor potential impact, including impact on the capital financing budget as a whole. The Council does not intend to implement fundamental changes to MPR approaches as the provision is fully funded and factored into the MTFS.

CONCLUSION

Auditor view

To save debt servicing costs and increase diversification the Council sought alternative forms of borrowing from the usual PWLB loans. This borrowing will fund the Council’s ambitious housing and regeneration plans which will have a pivotal role to play in the Borough’s post-Covid-19 recovery plans. Overall, we believe the significant risk of capital programme funding is mitigated.

Independence and ethics

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

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

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D.

	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£25,000 plus £850 per diem rate for additional work if required	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.
Teachers' Pensions return	£5,000	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 Pooling of Housing Capital Receipts grant	£4,000	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.
I4B Holdings Ltd audit	£29,500	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 £29,500 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.
First Wave Housing Ltd audit	£27,500	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 £27,500 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.

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 Councils S151 Officer. None of the services provided are subject to contingent fees.

Action plan

We have identified six recommendations for the group as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
 MEDIUM	<p>IFRS 16 implementation has been delayed by one year</p> <p>In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.</p>	<p>In finalising assessment of the impact of IFRS 16, in preparation for its implementation, the Council must ensure completeness of the assessment of leases so that all relevant leases are included in the assessment.</p> <p>Management response</p> <p>The Council has already undertaken an extensive review of its leasing obligations in 2019/20, which has been shared with Grant Thornton, and will keep this up to date in 2020/21 to minimize the risks of error in this area.</p>
 MEDIUM	<p>Aged Collection Fund debtors and creditors</p> <p>In our testing of the Council's Collection Fund debtors and creditors we have identified items over 6 years old with little prospect of clearing that should be considered for write off.</p>	<p>Review debtor and creditor amounts over 6 years and consider for write off.</p> <p>Management response</p> <p>A review of the Council's debt was started in 2018/19, which included this as part of its plans, however Covid-19 has delayed the process for writing out debt, but this is scheduled for autumn this year.</p>
 MEDIUM	<p>Creditors – purchase order accruals</p> <p>Our testing of PO accruals identified 4/12 items that should have been cleared or cancelled.</p>	<p>Processes should be in place to ensure that PO accruals are cleared or cancelled if they are no longer required.</p> <p>Management response</p> <p>The auditors identified a small set of errors in their sample, and this was extrapolated to an error that represents a very small percentage of the Council's £1bn spend. The Council will review its processes.</p>
 MEDIUM	<p>Unallocated income</p> <p>In total there is £2.8m of unallocated income in the 2019/20 Accounts.</p>	<p>Ensure that unidentified income received is traced to its source to ensure the income is valid and correctly classified.</p> <p>Management response</p> <p>Across its various income streams the Council receives a billion pounds a year in income. Covid-19 and staff restructures in 2019/20 has made the final resolution of most difficult income to allocated in 2019/20 harder than in previous years. The Council's transformation and finance teams are working together on improved processes across the Council to address this for 2020/21.</p>

Action plan – continued

Assessment	Issue and risk	Recommendations
 MEDIUM	<p>Housing Benefit expenditure</p> <p>The Council is unable to fully reconcile non-HRA expenditure charged to the CIES and the non-HRA expenditure recorded in the Northgate system. Non-HRA expenditure recorded in Northgate is £3.6m higher than that recorded in the general ledger.</p>	<p>Fully reconcile Housing Benefit expenditure per the Northgate system to Housing Benefit expenditure recorded in the general ledger on a regular basis.</p> <p>Management response</p> <p>The Council will review the reporting from Northgate and reconciliation of the Northgate system, and review how reporting and reconciliation can be improved, both to resolve this difference, and to improve reconciliations in the future so that they are more robust and easier to produce and understand. We will also review the process of creating general ledger journals for these items to see if this process can be improved to aid reconciliation.</p>
 MEDIUM	<p>Oracle security and access controls</p> <p>Control weaknesses were identified in the security and access of the Council's Oracle system.</p>	<p>IT audit findings to be reviewed by the Council's ICT Clienting and Applications team and any inappropriate access/responsibilities to be resolved/removed.</p> <p>Management response</p> <p>The Council has committed to review these findings and address, where possible in the current Oracle system, and put in place compensating controls where it is not possible to improve the current Oracle system. In a small number of cases, fully addressing the issue will depend upon the upgrade to Oracle Cloud.</p>

Controls

-  High – Significant effect on control system
-  Medium – Effect on control system
-  Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the London Borough of Brent's 2018/19 financial statements, which resulted in three recommendations being reported in our 2018/19 Audit Findings report. We are pleased to report that management has made progress in implementing all of our recommendations, with one recommendation fully implemented.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Control account reconciliations</p> <p>Control account reconciliations of key financial systems to the general ledger are not routinely performed by the Council.</p> <p>Refer to page 18 of this report for further detail.</p>	<p>Actions are still in progress, to be fully addressed per the Housing Benefit recommendation on page 30 – The Council has undertaken an extensive programme of work on this to improve reconciliations, including training staff, dedicated staff to improve the difficult reconciliations, and regular reporting to the Director of Finance on progress and issues.</p>
X	<p>NNDR creditors</p> <p>Our testing of 7 items of NNDR creditors identified that 3 out of 7 creditors were over 10 years old.</p> <p>Refer to page 18 of this report for further detail.</p>	<p>Actions are still in progress, to be fully addressed per the Collection Fund creditors recommendation on page 29 – A review of the Council debt was started in 2018/19, which included this as part of its plans. However, Covid-19 has delayed the process for writing out debt but is scheduled for autumn this year.</p>
✓	<p>IT general controls</p> <p>a) Two enabled default accounts within the Oracle EBS have default passwords.</p> <p>b) The Oracle database audit trail is not enabled. We noted that audit logging was not enabled in the database.</p> <p>c) Our segregation of duties review noted 117 users with segregation of duty conflicts.</p>	<p>a) Default passwords have been changed.</p> <p>b) The Council has implemented this to the extent feasible with the current Oracle system. Further improvements are planned with the upgrade of Oracle.</p> <p>c) The Council has reviewed these in full, and in several cases the risk of breach of segregation of duties cannot occur as other compensating system controls prevent this. In addition, to reduce the risk the Council has taken action to:</p> <ol style="list-style-type: none"> i. Change some of its processes, so fewer people have responsibilities that pose significant risks. ii. More frequently review who has access to responsibilities, especially where these could elevate the risk of fraud.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit adjustments

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

Impact of adjusted misstatements All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Revaluation of land and buildings			
Updated revaluation exercise carried out in August 2020 identified £1.989m reduction in the value of land and buildings.			
PPE – Land & buildings cost		(1,989)	
Revaluation reserve		(1,631)	
Capital adjustment account		3,620	
Surplus/Deficit on provision of services	3,620		3,620
Movement in reserves	(3,620)		(3,620)
Overall impact	£Nil	£Nil	£Nil

Audit adjustments – continued

Misclassification and disclosure changes

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

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Capital expenditure and financing – Note 24	<ul style="list-style-type: none"> Presentation of Note does not agree to CIPFA Guidance Notes. Loan made to i4B excluded from the Note. 	<ul style="list-style-type: none"> Format of Note to be in line with CIPFA Guidance Notes. i4B loan to be included in disclosure. <p>Management response Agreed to amend.</p>	✓
Expenditure and funding analysis (EFA)	The reconciliation within the EFA did not include earmarked HRA and GF reserves or Schools' balances.	<p>Include earmarked HRA and GF reserves and Schools' balances in the EFA reconciliation.</p> <p>Management response Agreed to amend.</p>	✓
PPE – Note 1	The Note did not include the proportion of assets, by value, that were valued during the year. Or the valuation dates of the remaining balance.	<ul style="list-style-type: none"> Include analysis of the proportion of assets, by value, that were valued during the year. Include the valuation dates of the remaining assets. <p>Management response Agreed to amend.</p>	✓
PFI – Note 30	Missing explanation of how the Stonebridge tenants' vote meets the requirements of IFRIC12, IFRIC4 or IAS16.	<p>Disclosure to explain how the Stonebridge tenants' vote meets the requirements of IFRIC12, IFRIC4 or IAS16.</p> <p>Management response Agreed to amend.</p>	✓
Group Accounts – PPE	The group PPE value is significantly different from the single entity PPE value. Therefore a full group PPE note should be included in the group accounts.	<p>Group PPE note should be included in the group accounts.</p> <p>Management response Agreed to amend.</p>	✓
Minor formatting issues	A number of minor formatting issues to improve the presentation of the Council's financial statements.	<p>Some minor formatting issues on the notes to the accounts were agreed with management.</p> <p>Management response Agreed to amend.</p>	✓

Audit adjustments – continued

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Standards Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Housing benefit expenditure The reconciliation we performed between Housing Benefit expenditure charged to the CIES and the expenditure recorded in the Northgate system identified a £3.6m difference in relation to non-HRA expenditure that management has been unable to reconcile.	3,552	Nil	3,552	The Council is still reviewing whether or not an adjustment is necessary. The Council is working on improving the reporting from and reconciliation of Northgate to determine this.
Overall impact	£3,552	Nil	£3,552	

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	£184,184	£184,184
Total audit fees (excluding VAT)	£184,184	£184,184

Non-audit fees for other services	Proposed fee
Audit Related Services	
Grants:	
• Housing Benefit Subsidy return	£25,000
• Teachers' Pension return	£5,000
• Pooling of Housing Capital Receipts return	£4,000
Audit of subsidiaries:	
• i4B Holdings Ltd audit	£29,500
• First Wave Housing Ltd audit	£27,500
Total non- audit fees (excluding VAT)	£91,000

Audit opinion

We anticipate we will provide the group with an unmodified audit report

Independent auditor's report to the members of London Borough of Brent

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the London Borough of Brent (the 'Authority') and its subsidiaries (the 'group') for the year ended 31 March 2020 which comprise the Balance Sheet, the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account, the Group Balance Sheet, the Group Comprehensive Income and Expenditure Statement, the Group Cash Flow Statement, and the Group Movement in Reserves Statement, and the Group Cash Flow Statement and notes to the financial statements, including a Statement of Accounting Policies. The notes to the financial statements include the Notes and Disclosures to the Core Statements, Notes to the Housing Revenue Account Statement, Notes to the Collection Fund, Notes to the Group Accounts, Statement of Accounting Policies, and Additional Supporting Information and Reconciliation Disclosures. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Authority as at 31 March 2020 and of the group's expenditure and income and the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

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

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

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

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

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the group's and Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the group's and Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority or group will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to the 'Additional Supporting Information and Reconciliation Disclosures – Key Judgements and Material Estimates' section of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority and group's land and buildings as at 31 March 2020. As disclosed in the 'Additional Supporting Information and Reconciliation Disclosures – Key Judgements and Material Estimates' section of the financial statements, the lockdown instituted by Central Government largely froze both residential and commercial property markets. The lack of an active market as at 31 March 2020 makes it practically impossible to determine the values with the same accuracy as last year. Further, institutions such as the Bank of England are warning that there is likely to be a significant fall in property prices as a result of Covid-19. The Council's valuers have stated that there is material uncertainty about the movement of property prices and valuations as a result of Covid-19. The Council has decided to use the valuer's estimates of property valuations and movements as the best available estimates of the values of the Council's assets as at 31 March 2020, but these estimates are subject to greater uncertainty than in previous years. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Statement, and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 85 to 86, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority 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 Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

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

[Signature]

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

London

[Date]



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