London Borough of Brent audit plan

Year ending 31 March 2021

London Borough of Brent

March 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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.

Key matters

Factors	Our response
Impact of Covid-19 pandemic The outbreak of the Covid-19 coronavirus pandemic had a significant impact on the Council's normal operations. Throughout the pandemic the Council has kept critical services going. At the start of the pandemic the Council led the way by supplying PPE to care homes, leading to the West London Alliance PPE system, which in turn led to the London-Wide PPE system. The Council has delivered food parcels to those in need, accommodated homeless people and rough sleepers – subsequently rehousing over a third of those accommodated, set up a Residents' Support Fund worth £2.6m deal with financial hardship created by Covid-19, and made welfare calls to vulnerable people. During the first peak the Council immediately built additional mortuary capacity when Northwick Park Hospital declared an emergency, to ensure that every person was treated with dignity in death. The UK's first hyperlocal testing centre in Harlesden was established by the Council, and it has assisted with testing programmes and vaccine administration by helping with site preparation and logistics, and in communications and engagement with local communities and faith-based groups to encourage uptake of the vaccine. Since the start of the pandemic, the Council has been on the front line in distributing grants to businesses in Brent to help them offset the impacts of Covid-19. Grants have been made available through a number of Government schemes, such as the business rates grants launched in spring 2020, and the Local Restrictions Support Scheme which was introduced with the tier system in late autumn 2020. The Council has also delivered the 2020/21 business rates holidays promised by the government. In the midst of the pandemic the Council was named 'Council of the Year' 2020, at the prestigious Local Government Chronicle Awards. The award recognised the Council for embracing its communities in a celebration of diversity, and for demonstrating a level of excellence and innovation that takes its work well beyond basic service provision. The Council is now considering how to take forward the benefits from remote working necessitated by the pandemic. This includes further use of flexible working, effective use of office space and reviewing service delivery models to ensure that residents and local communities continue to receive cost effective, efficient quality services.	We will consider your arrangements for managing the impact of the Covid-19 pandemic as part of our Value for Money work.
Regeneration Like much of London, Brent has gone through a period of rapid growth which is expected to continue. There are pressing needs for more genuinely affordable homes, modern workspace and jobs along with community facilities and other infrastructure to support a growing population, as well as to tackle deprivation and inequality. For the second year running, GLA data shows that Brent has more affordable homes under construction than anywhere else in London. In February the Council granted planning permission for three major development projects which will deliver more than 1,000 new homes. The applications include a revised plan for the redevelopment of Northfield Industrial Estate (set to deliver 300 extra new homes on top of the original 3,000 new homes, 35% of which will be affordable and for 25% of the site's workforce to be Brent residents), the redevelopment of Abbey Manufacturing Estate (providing 684 homes, 35% of which will be affordable), and a mixed-use scheme that will include 239 build-to-rent apartments (21% of which will be affordable).	We will consider your arrangements for service transformation and cultural change as part of our Value for Money work.

Key matters

Factors	Our response
Brent's Local Plan seeks to achieve good growth by addressing the sometimes competing requirements of: planning for increased population associated with London's continuing success; community needs for additional affordable homes, jobs and inward investment whilst protecting and enhancing valued character and open spaces; and pressures on infrastructure such as schools, doctors' surgeries and transport. It seeks to address the opportunities and challenges facing the Borough, its communities and people. The Council has submitted its response to the Inspectors' actions which resulted from the Hearing sessions completed in October 2020. In addition, the Council has considered the implications of the Secretary of States letter to the Mayor of London on 10 December 2020, and how it impacts upon the soundness of the Brent Local Plan, and has provided response to the Inspectors. Despite the current uncertain circumstances brought on by the public health pandemic it will be vital to plan proactively towards a recovery, particularly for the local economy.	
Finances The Council's financial position over the coming years will be increasingly challenging. For Brent, the impact of Covid-19 is predicted to add £37.1m of costs and income losses to services in 2020/21, of which £34.2m relates to the General Fund, £2.7m relates to the Housing Revenue Account, and £0.2m relates to the Dedicated Schools Grant (DSG). In the short term the government is providing financial support to meet some of these pressures. The current known allocation from central government to the Council remains at £31.3m (£6.2m drawn down in 2019/20 and £25.1m to be utilised in 2020/21) and the Council also expects to receive around £3.7m as part of the government's scheme to reimburse a proportion of local authorities' loss in non-commercial fees and charges due to the pandemic. The 2020/21 forecast position as at Quarter 3 shows a net overspend of £8m for the year, which can be attributed to: Covid-19 net pressures (£3.4m); General Fund (£0.6m); and DSG (£4m). The impact of the pandemic continues to be a key driver for the overspend along with DSG-funded activity. The future of local authority funding remains uncertain as new Local Government funding arrangements that were meant to be in place by April 2020 have been delayed until at least 2022. The Council, through scenario planning, has placed budget shortfall over the next three years to be between £5m to £20m, and for budgeting purposed have adopted a 'central case' value of £13m on which to base its Medium Term Financial Strategy and deliver a balanced budget for 2021/22 to 2022/23. For 2021/22 the Council is proposing a balanced budget which includes assumed savings of £10m across directorates together with a Council Tax increase of 4.99 per cent, including the 3 per cent increase in respect of the adult social care precept.	We will consider your arrangements for managing and reporting your financial resources and assessing your financial resilience as part of our Value for Money work.

Key matters

Factors	Our response

Accounting and auditing developments

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM) There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness;
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach; and
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As part of this process auditors also need to obtain an understanding of the effectiveness of the role of those charged with governance relating to accounting estimates adopted by management, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Although the implementation of IFRS 16 has been delayed, audited bodies still need to include disclosures in their 2020/21 statements to comply with the requirements of IAS 8 . As a minimum, we would expect the Council to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases. If the impact of IFRS 16 is not known or reasonably estimable, the accounts should state this.

In the prior year the Council's valuer reported a material uncertainty regarding the valuations of properties due to the Covid-19 pandemic. In addition, there was a material uncertainty in relation to the valuation of the pooled property funds which impacted both the Council's and Pension Funds position. We will monitor the position for the 31 March 2021 valuations.

Our response

- Members of the finance team attended our annual final accounts workshop during February, hosted by our highly experienced public sector assurance team as they help you prepare for your 2021 financial statements audit by highlighting potential risk areas and providing you with practical advice.
- We will continue to provide you with sector updates via our progress reports to Audit and Standards Committee.
- We will liaise with the Council's valuer and Pension Fund managers to clarify any potential material uncertainties in 2020/21.

Introduction and headlines

Purpose

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

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of the London Borough of Brent. *We draw* your attention to both of these documents.

Scope of our audit

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

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

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

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

Group Audit

The Council is required to prepare group financial statements that consolidate the financial information of First Wave Housing, I4B Holdings Limited, LGA Digital, and Barham Park Trust.

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management override of control
- Valuation of land and buildings
- Valuation of net pension fund liability
- Fraud in expenditure recognition

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

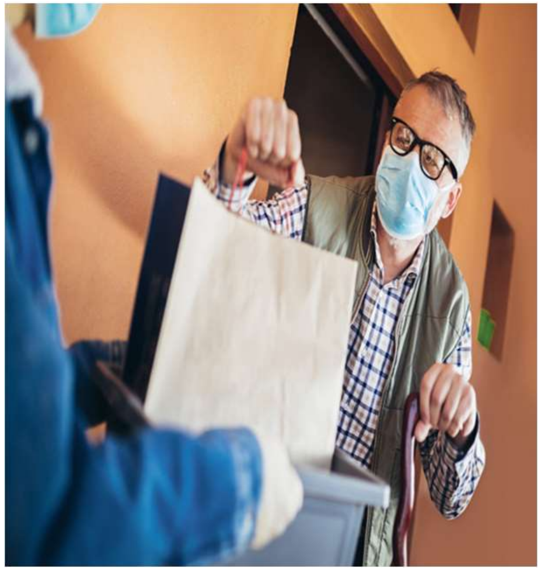
We have determined planning materiality to be £16.176m (PY £16.7m) for the group and £16.1m (PY £16.6m) for the Council, which equates to 1.5% of your prior year gross expenditure for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.8m (PY £0.8m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified the following areas of focus for our value for money assessment.

- The Council's arrangements in response to the Covid-19 pandemic. Reviewing financial governance arrangements in place over Covid-related spend and how the Council is capitalising on the benefits from different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Strategy and achieving financial sustainability. Reviewing execution of the Council's capital programme in conjunction with the Council's post-Covid estates strategy.
- The Council's arrangements for working with its key partners and subsidiaries to deliver services efficiently, and governance arrangements in place.

Introduction and headlines cont.



Audit logistics

Our planning visit took place in March and our final visit will take place in July to early September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report. Our audit approach is detailed in Appendix A.

Our fee for the audit will be £227,184 (PY: £211,834) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) 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..

Group audit scope and risk assessment

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

Component	Individually Significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Brent	Yes		See pages 9 to 11	Full scope audit performed by Grant Thornton UK LLP
First Wave Housing	No		None	Analytical review performed by Grant Thornton UK LLP
I4B Holdings Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
LGA Digital Services	No		None	Analytical review performed by Grant Thornton UK LLP
Barham Park Trust	No		None	Analytical review performed by Grant Thornton UK LLP

Audit scope

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

Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and nature of the revenue streams at the London Borough of Brent, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the London Borough of Brent, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for the London Borough of Brent.	
Fraud in expenditure recognition	Council	As most public bodies are net spending bodies, then the risk of material misstatement due to fraud related to expenditure recognition may be greater than the risk of fraud related to revenue recognition. There is a risk the Council may manipulate expenditure to meet externally set targets and we had regard to this when planning and performing our audit procedures. Management could defer recognition of non-pay expenditure by under-accruing for expenses that have been incurred during the period but which were not paid until after the year-end or not record expenses accurately in order to improve the financial results.	We will: • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year; compare size and nature of accruals at year to the prior year to help ensure completeness. • Investigate manual journals posted as part of the year end accounts preparation that reduces expenditure to assess whether there is appropriate supporting evidence for the reduction in expenditure.

Significant risks identified cont.

<table>
<tr><th>Risk</th><th>Risk relates to</th><th>Reason for risk identification</th><th>Key aspects of our proposed response to the risk</th></tr>
<tr><td>Management override of controls</td><td>Group and Council</td><td>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 both the Group and Council, which was one of the most significant assessed risks of material misstatement.</td><td>We will:
Evaluate the design effectiveness of management controls over journals.
Analyse the journals listing and determine the criteria for selecting high risk unusual journals.
Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.
Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.
Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</td></tr>
<tr><td>Valuation of land and buildings</td><td>Council</td><td>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 (£1,608m) 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 2021 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.</td><td>We will:
Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
Evaluate the competence, capabilities and objectivity of the valuation expert.
Discuss with or write to the relevant valuer to confirm the basis on which the valuation was carried out.
Engage our own valuer expert, Gerald Eve, to provide commentary on:
the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and
the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
Test revaluations made during the year to see if they have been input correctly to the Council's asset register.
Evaluate 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.</td></tr>
</table>

Significant risks identified cont.

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	Council	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 (£660m) 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 will: • Update 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 evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit and Standards Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, including council dwellings
- Depreciation
- Fair value estimates
- Valuation of defined benefit net pension fund liabilities
- Year end provisions
- Income and expenditure accruals
- Credit loss and impairment allowances
- PFI liabilities

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate; and
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures we have requested that management provides detail as to how the Council addresses estimation uncertainty, and to share its responses with TCWG for consideration. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020/21 financial statements, consider and decide upon any objections received in relation to the 2020/21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act);
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act; and
  - issuing an advisory notice under section 29 of the Act.
- We certify completion of our audit.

Other material balances and transactions

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

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VfM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report (see page18). We will also need to identify whether any material uncertainties in respect of going concern have been reported for the Council's subsidiaries. If such a situation arises, we will consider our audit response for the group.

Progress against prior year audit recommendations

We identified the following issues in our 2019/20 audit of the group's financial statements, which resulted in 6 recommendations being reported in our 2019/20 Audit Findings Report. We are pleased to report that management is implementing all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	IFRS 16 implementation has been delayed by one year In our review of the Council's accounting policies we identified that the disclosure in relation to IFRS 16 is appropriate.	IFRS 16 is expected to defer until 2022/23. The Council will continue to include the disclosure on IFRS16 in the accounting policies.
2	Aged Collection Fund debtors and creditors 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.	Aged Collection Fund debtors and creditors are being reviewed and where appropriate write offs are being actioned. The Council is on track to writing off all aged Collection Fund debtors and creditors that are unlikely to be cleared.
3	Creditors – purchase order accruals Our testing of PO accruals identified 4/12 items that should have been cleared or cancelled.	Purchase order accruals have been written off. The Council is currently in the process of preparing for re-accrual of the written off accruals where necessary. The Council expects this to be completed for the year end accounts.
4	Unallocated income In total there is £2.8m of unallocated income in the 2019/20 Accounts.	Unallocated income is being closely reviewed. A virtual team has been set up, each member of the team have been assigned to review a specific service's unallocated income. The Council's senior managers are having regular updates to monitor the position of the unallocated income to ensure that the majority of unallocated income are identified.
5	Housing Benefit expenditure 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.	The service and IT are aware of the reports that are required to reconcile expenditure recorded in Oracle and Northgate. The Council is expecting no issue with reconciling Oracle and Northgate.
6	Oracle security and access controls Control weaknesses were identified in the security and access of the Council's Oracle system.	IT have tightened control and provided update to auditors. Some issues will need to be addressed in Oracle Cloud.

Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

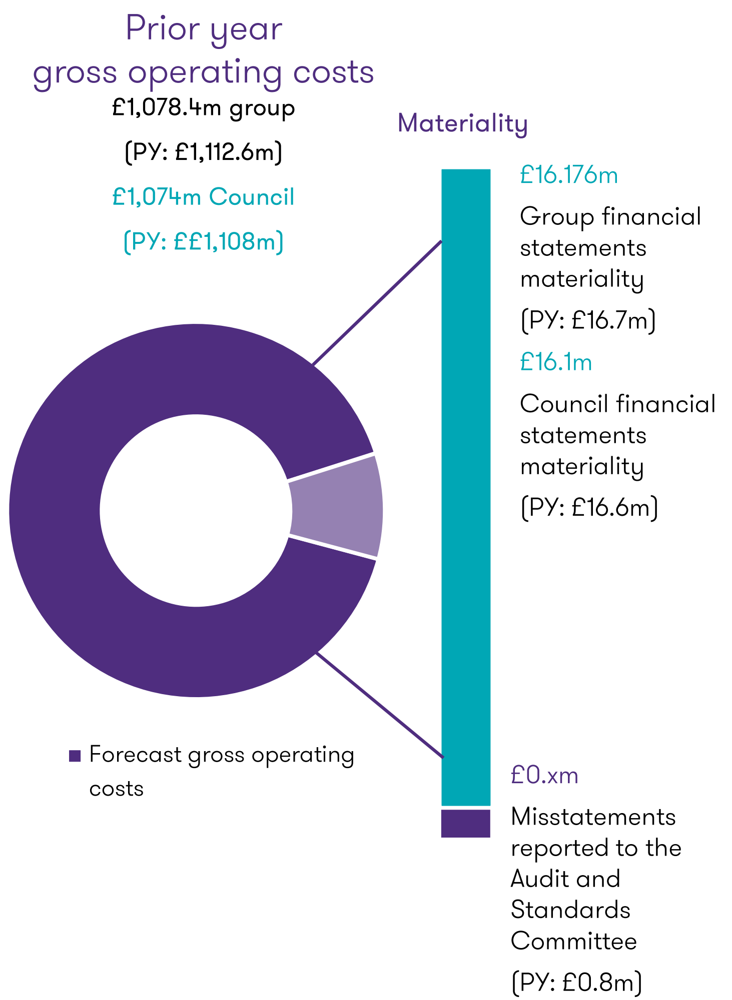
We have determined financial statement materiality based on a proportion of the gross expenditure of the group and Council for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £16.178m (PY £16.7m) for the group and £16.1m (PY £16.6m) for the Council, which equates to 1.5% of your forecast gross expenditure for the year. We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £0.8m for senior officer remuneration and related parties.

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

Matters we will report to the Audit and Standards Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than 0.8m (PY £0.8m).

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



Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary qualified/unqualified approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out alongside.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. Whilst our planning assessment did not identify significant weaknesses in arrangements at this stage, we have highlighted further key areas of focus, set out in the first table below. We many need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the second table below.

Key areas of focus

The local government operating environment has been significantly impacted by the pandemic and the future funding regime remains uncertain. This lack of certainty will impact on the Council's ability for long term planning. Our Value for Money work will primarily focus on the aspects listed below, but may increase in scope as further work is performed:

- The Council's arrangements in response to the Covid-19 pandemic. Reviewing financial governance arrangements in place over Covid-related spend and how the Council is capitalising on the benefits from different models of service delivery and ways of working brought about by the pandemic.
- The Council's arrangements for setting the Medium Term Financial Strategy and achieving financial sustainability. Reviewing execution of the Council's capital programme in conjunction with the Council's post-Covid estates strategy.
- The Council's arrangements for working with its key partners and subsidiaries to deliver services efficiently, and governance arrangements in place.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Audit logistics and team

Planning and risk assessment

Audit & Standards Committee
March 2021
Audit Plan

Audit & Standards Committee
May 2021
Progress Report

Year end audit
July-September 2021

Audit & Standards Committee
September 2021
Audit Findings Report/Draft Auditor's Annual Report

Audit opinion

Audit & Standards Committee
December 2021
Final Auditor's Annual Report

Paul Dossett, Key Audit Partner

Paul is the Engagement Lead, for the Council and Pension Fund, leads the work performed on the audit. Signs the audit opinion and holds regular meetings with senior officers.

Sophia Brown, Senior Manager

Sophia is the Engagement Manager responsible for the overall management of the Council's audit; consideration of VFM work, quality assurance of audit work and outputs.

Reshma Ravikumar, Audit Incharge

Reshma will lead the audit team and is the day-to-day contact for the audit. She will monitor the deliverables, manage the audit query log with your Finance Team and highlight any significant issues and adjustments to senior management in a timely manner.

Audited body responsibilities

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

Our requirements

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

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

Audit fees

In 2017, PSAA awarded a contract of audit for the London Borough of Brent to begin with effect from 2018/19. The fee agreed in the contract was £153,684. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2020/21 audit.

As referred to on page 18, the 2020/21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee of £227,184. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed in Appendix 1..

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. We have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2020/21, as set out below, is detailed overleaf and has been discussed with the Director of Finance. As part of its response to the Redmond Review in December 2020, MHCLG committed an extra £15m to support the delivery of local audit in 2020/21. We understand that the Council will receive a grant to support 2020/21 audit fees in the next few weeks.

	Actual Fee 2018/19	**Actual Fee 2019/20**	**Proposed fee 2020/21**
London Borough of Brent Audit	£153,684	*£211,184	£227,184
London Borough of Brent Pension Fund Audit	£16,170	*£28,750	£33,000
Audit of First Wave Housing	£25,000	£27,500	£TBC
Audit of I4B Ltd	£27,000	£29,500	£TBC
Total audit fees (excluding VAT)	£221,854	*£296,934	£TBC

*Incorporates elements of fee variation with PSAA for approval

Assumptions

In setting the above fees, we have assumed that the Council will:

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

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£153,684
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£10,000
Enhanced audit procedures for Property, Plant and Equipment	£9,500
Enhanced audit procedures for Pensions	£4,000
Group accounts	£4,000
New accounting standards	£3,000
Covid-19 impact (one-off cost for 2019/20)	£27,650
Audit fee 2019/20	**£211,834**
New issues for 2020/21	
Additional work on Value for Money (VfM) under new NAO Code	£26,000
Increased audit requirements of revised ISAs	£17,000
Proposed increase to agreed 2019/20 fee	£43,000
Total audit fees (excluding VAT)	**£227,184**

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) 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.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

Service	Fees £	Threats	Safeguards
Audit related			
Certification 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 £227,184 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 Teachers' Pension grant	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 £227,184 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Subsidy	25,000 plus per diem rate for additional work 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 £227,184 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.

Independence and non-audit services cont.

Service	Fees £	Threats	Safeguards
Audit related			
I4B Holdings Ltd Audit	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant in comparison to the total fee for the audit of £227,184 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	TBC	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant in comparison to the total fee for the audit of £227,184 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.
Objection to the 2020/21 accounts	TBC	None identified	

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

None of the services provided are subject to contingent fees.

Appendix 1: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 19/20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020/21 audits and beyond.

	Date of revision	Application to 2020/21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix 1: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020/21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Grant Thornton

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