This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

Grant Thornton

The Audit Findings for London Borough of Brent

Year ended 31 March 2021

London Borough of Brent

September 2021

Contents

Your key Grant Thornton team members are:

Paul Dossett
Key Audit Partner
E paul.dossett@uk.gt.com

Sophia Brown
Senior Engagement Manager
E sophia.y.brown@uk.gt.com

Omer Awais
Assistant Manager
E omer.awais@uk.gt.com

Reshma Ravikumar
Audit In-Charge
E reshma.ravikumar@uk.gt.com

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 fieldwork 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.

This Audit Findings 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. Its contents have been discussed with management and the Audit & Standards Committee.

Name: Paul Dossett
For Grant Thornton UK LLP
Date: 15 September 2021

1. 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 and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

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 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.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July to September. Our findings are summarised on pages 5 to 20. We have identified three adjustments to the financial statements that have resulted in a £2.944m adjustment to the Council's Comprehensive Income and Expenditure Statement – a reduction to expenditure of £2.944m, this is reversed in the Movement in Reserves Statement, so that the overall impact on the General Fund is nil. 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.

Our work is substantially complete and currently 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;

- PPE revaluation – we have queries outstanding with management's valuer (WHE) in respect of useful economic lives (UELs) of buildings and are discussing with management the approach adopted for the calculation of depreciation rates for buildings.; we are also – reviewing responses received from WHE on assumptions used in the valuation; completing a valuation trend exercise; and we have selected an additional 12 revalued asset items for detailed testing for which we await supporting audit evidence (issued 16/9/21). Our testing of revaluation accounting entries has identified a difference of £1m we are investigating with management;
- Council dwellings revaluation – we are reviewing WHE's response to indexation rates used in the desktop revaluation exercise, and we also reviewing management's social housing discount factor reconciliation;
- Assets under construction – we await receipt of 10 sample items for sample issued on 13/9/21;
- Journals testing – testing of 67 journals is complete and the work is going through the quality review process;
- Grant income – we are performing a trend analysis against prior year income in respect of areas of lost income claimed for 2020/21 and we await response on quantification of error identified in respect of grant classification;
- Operating expenditure – of 120 sample items we have completed testing on 117 items, with 3 items awaiting further audit evidence;
- Creditors – of 25 residual creditor sample items we have completed testing on 24 items, with one sample item awaiting further audit evidence; of 6 creditor accrual items we have completed testing on 5 items with one sample item awaiting further audit evidence;

1. 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 and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements	
Outstanding matters – continued	• Residual debtors – of 10 sample items we have one remaining item we are querying with management; • Expenditure & Funding Analysis – query with management for the difference between figures disclosed for 2019/20 against prior year audited figures; • Remuneration disclosures – of 5 exit packages sampled we await further audit information for 4 items; • Group accounts – we await the updated group accounts working paper, incorporating the accounting adjustments for i4B and FWH; • Prior Period Adjustment – we await responses to our queries to confirm correct accounting treatment of correction of prior year bank reconciliation issue (see below); • IFRS16 – we await updated working paper to confirm impact of the introduction of IFRS16; • Receipt of management representation letter; and • Review of the final set of financial statements. We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited. Our anticipated audit report opinion will be unmodified (refer to Appendix E).
Prior Period Adjustment	The 2020/21 financial statements includes a prior period adjustment in relation to cash in transit of £10m. This results in a restated balance sheet to correct the 2019/20 figures - please refer to page 18 for further detail.

1. Headlines

Value for Money (VFM) arrangements	
Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit. Auditors are required to report their commentary on the Council's arrangements under the following specified criteria: - Improving economy, efficiency and effectiveness; - Financial sustainability; and - Governance	We have completed our VFM work, which is summarised on page 26, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources at this stage.
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 expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report in October 2021.
Significant Matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

2. Financial Statements

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 and the Audit & Standards Committee.

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 Council's gross revenue expenditure to assess the significance of the component and to determine the planned audit response. From this evaluation we determined that analytical reviews were required for each component; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

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 & Standards Committee meeting on 22 September 2021, as detailed in Appendix E. The outstanding items are detailed on page 3.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff. As highlighted in our audit plan presented to the Audit & Standards Committee in March 2021, the impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as video meetings to conduct all progress meetings and to go through audit queries/evidence, verifying the completeness and accuracy of information provided remotely produced by the Council, and provision of all audit evidence through the Inflo system. Whilst challenging we were able to draw on and apply learning from last year's audit.

2. Financial Statements

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. We detail in the table beside our determination of materiality for the London Borough of Brent.

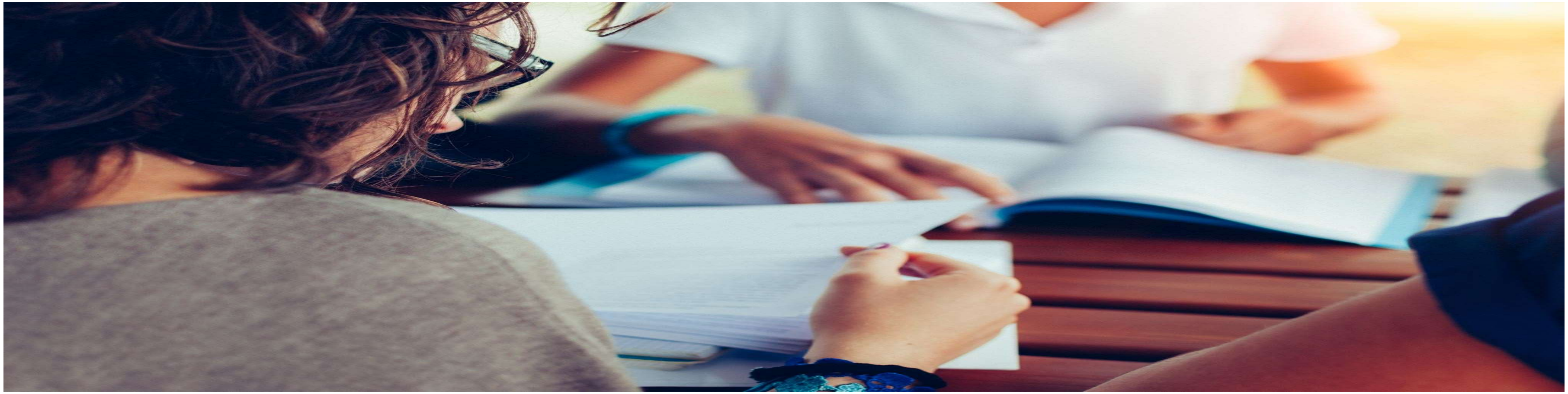
	Group Amount (£)	Council Amount (£)	Qualitative factors considered
Materiality for the financial statements	16,176,000	16,100,000	We considered materiality from the perspective of the users of the financial statements. The Council prepares an expenditure based budget for the financial year with the primary objective was to provide services to the local community, therefore gross expenditure was deemed the most appropriate benchmark. This benchmark was used in the prior year also. We considered 1.5% to be an appropriate rate to apply to the gross expenditure benchmark.
Performance materiality	12,132,000	12,075,000	The Council does not have a history of significant deficiencies or a large number of misstatements.
Trivial matters	808,800	805,000	The threshold above which we are required to report errors or uncertainties to those charged with governance, calculated as 5% of materiality.
Materiality for senior officers' remuneration and related parties	808,800	805,000	Senior officer remuneration and related parties are areas of interest to readers of financial statements. A lower level of materiality in these areas is appropriate due to the nature of these disclosure notes.

2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	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 both the group and Council, which was one of the most significant assessed risks of material misstatement.	We have: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our testing to date has not identified any issues in respect of the risk identified. We will provide an update to Audit & Standards Committee on 22 September.



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Fraud in expenditure recognition 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 have: • Inspected transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspected 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. • Investigated 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. • Reviewed Covid-19 Delta returns to ensure expenditure areas are in line with our expectations and performed trend analysis of prior year income compared to loss of income reported in the returns. Our testing to date has not identified any issues in respect of the risk identified. We will provide an update to Audit & Standards Committee on 22 September.

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 (£1,608m) 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.
	We have:
	• 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 or write to the relevant 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; and
	    • the valuation methodology and approach, resulting assumptions adopted 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 have been input correctly to the Council's asset register.
	• 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.
	Our auditor's valuation expert noted that the remaining useful economic lives (UELs) stated in management's valuation expert's, WHE, valuation summary are skewed towards the higher end, with nearly all buildings having UELs of approximately 49-51 years. We are reviewing the impact of this on in-year depreciation charged and accumulated buildings depreciation, having discussion with both WHE and our auditor's valuation expert, but do not expect the impact to be significant given that depreciation stands at £16.6m at 31 March 2021, with £13.4m of this relating to in-year depreciation.
	Refer also to page 11 for consideration of land and buildings valuation as a key estimate.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
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 (£863m) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the Council but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Council's pension fund net liability as a significant risk.	We have: • 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 evaluate the design of the associated controls. • Evaluated the instructions issued by management to their management expert (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. • Undertaken 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. Our testing to date has not identified any issues in respect of the risk identified. We will provide an update to Audit & Standards Committee on 22 September.

2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £1,010.7m	Other land and buildings comprises £706m 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 (£304.7m) are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged Wilks Head & Eve LLP (WHE) to complete the valuation of properties as at 1 April 2020 on a five yearly cyclical basis. 39% of total assets were revalued during 2020/21. The valuation of properties valued by the valuer has resulted in a net increase of £31.5m. Management has considered the year end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2020, based on the market review provided by the valuer as at 31 March 2021, 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 £1,010.7m, a net increase of £21.6m from 2020/21 (£989.1m). Management has not documented consideration of alternative estimates for the valuation of its land and buildings, and the modern equivalent assets used in the DRC valuations have not changed significantly, which is to be expected given the Council's estate.	Through the substantive audit work performed we have arrived at the conclusion that the Council's estate as at 31 March 2021 is not material misstated based on the following outcomes: • We reviewed the land and buildings valuation estimate in line with the revised ISA540 requirements and have no issues to raise; • We assessed management's valuation expert and found them to be competent, capable and independent; • We concluded that the underlying information used to determine the estimate is complete and accurate; • We assessed alternative site assumptions to be reasonable; and • We verified the valuer's outcome against our independent auditor's expert valuation trend report. Revised ISA540 requires enhanced disclosure of accounting estimates in the financial statements and the Council could do more to improve the quality of its disclosures around estimation uncertainty of land and buildings valuations, along with consideration of alternative estimates that are available. Refer also to page 9 for our comments on the depreciation of buildings.	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate

Net pension liability – £863m

Summary of management's approach

The Council's net pension liability at 31 March 2021 is £863m (PY £660.2m) 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.

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 £202.8m net actuarial loss during 2020/21.

Audit Comments

- 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:

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.0%	Between 1.95% to 2.05%	●
Pension increase rate	2.85%	Between 2.8% to 2.85%	●
Salary growth	3.15%	Between 2.85% to 3.85%	●
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.3 years Future-pensioners: 23.5 years Used CMI 2020 Model with long term improvement rate of 1.5%	Scheme specific but would expect actuary to calculate using the CMI 2020 Model with long term improvement rate of 1.5% pa	●
Life expectancy – Females currently aged 45 / 65	Pensioners: 24.7 years Future-pensioners: 26.2 years Used CMI 2020 Model with long term improvement rate of 1.5%		●

Assessment

Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £863m **- continued**		• 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 2020/21 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.	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £670.1m	The Council owns 7,912 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 £670.1.5m, a net increase of £51.6m from 2018/19 (£618.5m). There was also a net increase of 118 dwellings between 2019/20 to 2020/21 purchase of and new build dwellings.	• The Council's valuer WHE last valued the entire housing stock as at 1 April 2016 using the Beacon methodology. For 2020/21 the valuer reviewed market changes from 1 April 2020 to 31 March 2021 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. • 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 6-7%. • We have agreed the HRA valuation report to the Statement of Accounts. • This year the Council changed its approach in the application of indexation to council dwellings. In prior years indexation was applied to the brought forward net book value as at 31 March of the previous year. From this year onwards the Council has applied indexation to the gross carrying amount as at 31/3/2021, so that in-year additions and disposals are also accounted for. The difference arising from this change resulted in a £20m increase compared to if the prior year approach was used. The Council not disclosed the change in approach in the financial statements despite the impact being material. We challenged management on the rationale for changing the approach as additions do not require full uplift in year of acquisition and the change in estimation technique created a material difference that may also need to be reviewed and applied retrospectively to prior years. The Council has assessed that the prior year approach gives the best estimate of council dwellings valuation and will revise this in the final set of financial statements – refer to Appendix C for the adjustment.	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates

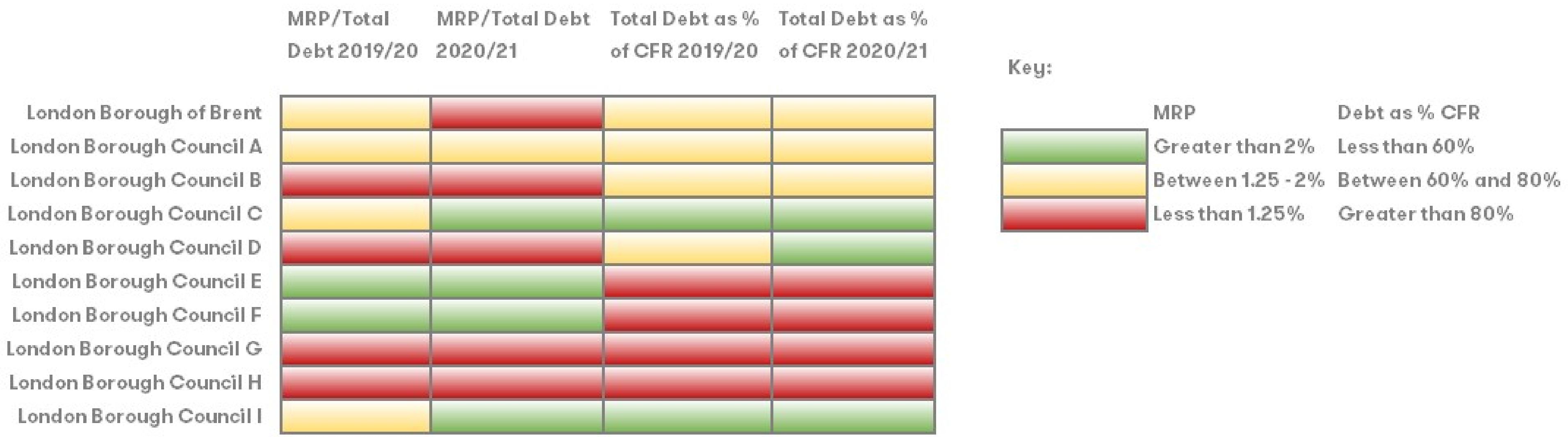
	Summary of management's approach	Audit Comments	Assessment
PFI provision - £18.8m	In 2018/19 the Council took the decision to convert tenancies under the Housing PFI to discounted market rent units. The tenancies conversion was slower than anticipated, exacerbated by the Covid-19 pandemic. There is now a need to review the original financial model and re-assess the level of provision required. In the updated finance model there is a need to increase the provision originally set aside for the PFI (£5.7m in 2019/20).	• The draft financial statements includes an accounting policy for provisions and PFI schemes. • The disclosure of the PFI provision within the financial statement is adequate. • Our review of the PFI provision calculation confirms that appropriate information has been used to determine the estimate and we deem the estimate to be reasonable.	Light purple
Minimum Revenue Provision - £10.3m	The Council is responsible, on an annual basis, for determining the amount charged for the repayment of debt – known as its Minimum Revenue Provision (MRP). The Council's approach to the MRP is set out to Members as part of the Budget and council tax proposals each year. The basis for the charge is set out in Regulations and statutory guidance. This year the MRP charge was £10.3m, a net decrease of £300k from 2019/20 (£10.6m).	Whilst we are satisfied that the Council has approved its MRP through appropriate governance structures and has sufficient reserves to cover the impact of any changes in approach that may arise out of recent MHCLG consultations, the Council will need to ensure that the MRP continues to be adequate in the context of increased borrowing. Recent events with other councils show that there are significant risks attached to not ensuring that MRP keeps pace with increased borrowing. We have carried out the following work: • Confirmed that the Council's policy on MRP complies with statutory guidance. • Assessed that there are no changes to the Council's MRP policy in comparison to 2019/20. • Compared the Council's MRP percentage against total debt held by the Council (see page 16) which shows that the Council sits in the red range of MRP as a percentage of its debt. We are currently in discussions with management to conclude on the reasonableness of the decrease in the MRP charge for 2020/21.	Blue

Assessment

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

2. Financial Statements - key judgements and estimates

MRP analysis of London Borough Councils



2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £744.9m	Management's policy states that grants are immediately recognised where the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is recognised as income as soon as the Council has reasonable assurance it will comply with the conditions attached to the grant, and the grants or contributions will be received. For this purpose, the Council acts as the principal and credited such grants, contributions and donations to the Comprehensive Income and Expenditure Statement. These mainly comprise of: • Local Authority Discretionary Grant Fund (LADGF) • COVID-19 Emergency Funding • COVID-19 LA Support Grant • COVID Winter Grant Scheme • Infection Control Fund • Contain Outbreak Management Fund • Business Rate Relief S31 Grant • Council Tax Hardship Fund • Sales Fees And Charge • Additional Restrictions Grant However, for some grants, The Council is also acting as an agent and does not recognise grant income. The Council has recognised the following grants as agency transactions: • Small Business Grant Fund (SBGF) and Retail, Hospitality and Leisure Grant Fund (RHLGF) • Business Grants Fund • Local Restrictions Support Grant (including Addendum) Work performed on grants confirm that the judgements exercised by the Council management in determining whether they are acting as principal or agent have been reviewed in detail and no material issues were noted.	Work performed during our audit covered the following: • Review of management's judgement of whether the Council is acting as the principal or agent which would determine whether the authority recognises the grant at all. • Completeness and accuracy of the underlying information used to determine whether there are conditions outstanding that would determine whether the grant be recognised as a receipt in advance or income • Impact for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. • Reviewed adequacy of disclosure of management's policy around recognition of grant income in the financial statements. We are finalising our work in this area and will provide an update to Audit & Standards Committee on 22 September.	Light Purple

Assessment

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

2. Financial Statements - Internal Control

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 risk	Recommendations
● (red)	**Prior period error – Bank reconciliation** In 2019/20 the bank reconciliation did not include £10m of cash in transit. This is because the accounts payable system was not able to readily flag the cash in transit relating to a £10m payment run on 31 March 2020. The reason for the difference was only identified through combining two different system reports and careful review by the Chief Accountant. Whilst investigating the difference the £10m was journaled into earmarked reserves but not allocated to a specific project so that it could be reversed once the issue was resolved. The error has been corrected in the 2020/21 financial statements. We are in the process of confirming the correct accounting entries for the correction with management.	• Ensure the bank reconciliation includes review of in-year movement on the bank reconciliation to the bank statement, to identify any significant movements in cash in transit. • Discuss errors/issues with external audit as they arise so correct treatment can be agreed in year of audit. Refer to Appendix A for management response.
● (amber)	**Grants register** As part of our grants testing we have identified that: • The grants register provided to audit was not up to date or reconciled to the financial statements. • The balance of Covid-19 grants shown in the financial statements did not agree to the grants register.	• Regularly review and update the grants register. • Reconcile the grants register to the financial statements as part of the accounts preparation process. Refer to Appendix A for management response.

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

2. Financial Statements - Internal Control

Assessment	Issue and risk	Recommendations
●	**Payroll creditors reconciliation** In reconciling payroll creditors management is unable to reconcile a £1.6m difference. The reconciliation is challenging as the items within the balance relate to prior years, the recording of historic information is poor and there is a large volume of transactions to review.	Complete reconciliation of payroll creditors and identify any issues which may apply to future years' reconciliations. Refer to Appendix A for management response.
●	**IT audit control findings – Security management** 1. Business users with critical access privileges assigned – 15 business users with financial responsibilities also have access to a range of high-risk system administration functions. 2. Segregation of duty conflicts with system administration and application development responsibilities assigned to one user. 3. Management and monitoring of generic administrator account activity – there is currently no audit logging enabled on the Oracle database, and KeePass password manager is located in a folder that is accessible by all of the Oracle EBS team. 4. Weak password configuration settings for Oracle EBS application and database. 5. Leavers accounts not disabled in a timely manner. 6. Lack of formal documentation for review of 'Signon audit reports' (equivalent of security event logs).	Review and address detailed recommendations as set out in the 2020/21 IT Audit Report. Refer to Appendix A for management response.

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

2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

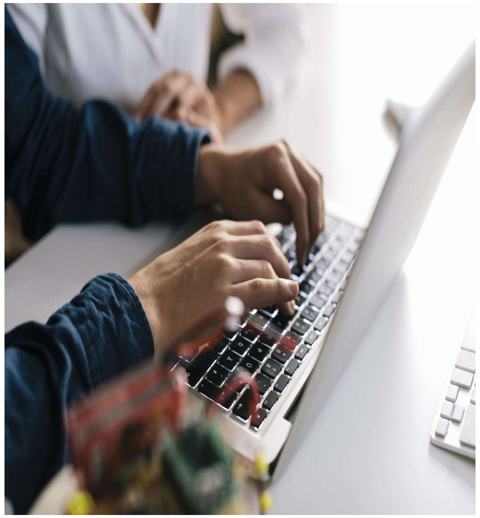
Significant matter	Commentary	Auditor view and management response
Future Funding	Government funding to support councils through the Covid-19 pandemic was helpful in 2020/21 and the rollover funding for 2021/22 was in line with previous funding settlements. However, the Spending Review, which will be announced at the end of October, carries a significant funding risk for all councils, as the Government seeks to balance current funding with paying back the monies to support the economy during the height of the pandemic.	The Council will need to start planning its 2022/23 budget and beyond, in an environment with high risk of further challenges, including management of the local impact of recent announcements on health and social care funding. Management response The Council agreed a two year budget in February 2021 covering the period 2021/22 and 2022/23. This includes delivering savings of £11.2m over this period as well as providing growth to contain the additional expenditure and income losses as a result of COVID-19. To date, our quarterly forecast reports presented to Cabinet have found that the majority of savings are on track to be delivered and that the growth provided to departments is sufficient to contain the financial impact of COVID-19 in 2021/22. As we look ahead to the 2022/23 budget setting process, a key contributing factor will be the outcome of the Spending Review for Local Government. Depending on the outcome, our Medium Term Financial Strategy will be updated, with regards to income and expenditure assumptions, to inform the decisions required set a balanced budget for 2022/23.
Dedicated Schools Grant (DSG)	The Council's overall DSG deficit has increased to £10.5m in 2020/21 (an in-year deficit of £5.6m and a carried forward deficit of £4.9m in 2019/20). The deficit is against the High Needs Block, which has come under increased pressure in supporting children with special educational needs – nationally the 2020/21 growth in Education, Health and Care Plans was a 10% increase, but in Brent this has been 16%, leading to spend that is significantly higher than funding provided by the Department for Education. The deficit is to be disclosed as an earmarked unusable reserve in line with Regulations. The £10.5m deficit will be carried forward to 2021/22.	The trend of demand and spending for children with special educational needs is increasing each year. The Council must identify actions to recover the cumulative DSG deficit, and identify longer term actions to increase the amount of special education provision within the Borough to reduce cost pressures. Management response A management plan has been put in place with actions to mitigate the current pressure and introduce measures to realise cost avoidance over the next few years. The plan assumes a gradual reduction in the growth of the number of children in need of an Education and Health Care Plan from 16% to 7% by 2025/26. Assuming a projected increase of 7% in the High Needs Block funding over the next few years, the expectation is for the in-year pressure to reduce. However, although the pressure is forecast to slow down, the cumulative deficit will increase before a reduction occurs which is likely to be from 2024-25.

2. Financial Statements - other communication requirements

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	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit & 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 Audit & Standards Committee papers.

2. Financial Statements - other communication requirements



Issue	Commentary
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. We requested management to send letters to those solicitors who worked with the Council during the year. As at 10 September we have received all but two responses. We have requested management to follow up the outstanding responses.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. We are finalising our review and will communicate any findings to management.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management is being provided in a prompt manner. At the start of the audit transaction listings for income and expenditure contained many contra entries which ultimately reverse out and do not form part of the year end balances. We worked with the Council to ensure that transaction listings were cleansed before we selected samples. In some instances the quality of working papers provided has not been consistent. Not all working papers provided were simple to follow which has meant that many sample items have had to be revisited numerous times to get the sufficient level of evidence needed for the audit. Both issues have caused some delay to audit progress and we have raised a recommendation in Appendix A.

2. Financial Statements - other communication requirements

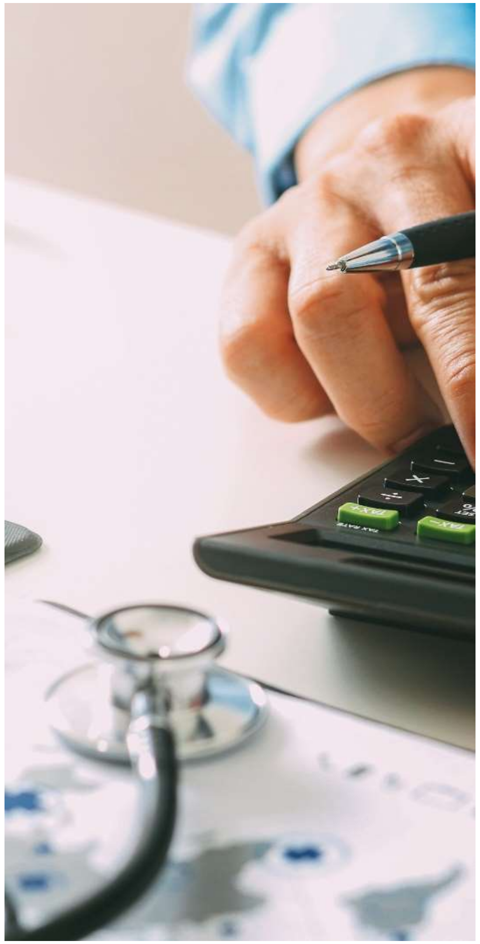
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities; and • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates; • the Council's financial reporting framework; and • the Council's system of internal control for identifying events or conditions relevant to going concern. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit; • if we have applied any of our statutory powers or duties; and/or • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Specified procedures for Whole of Government Accounts	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. 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. We plan for this work to be completed in line with the national deadline.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of the London Borough of Brent, as detailed in Appendix E, until the work on the WGA consolidation pack is complete.

3. 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.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.

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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are 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

3. VFM - our procedures and conclusions

We have completed our VFM work and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We did not identify any risks of significant weakness. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Criteria	Risk assessment	Conclusion
Financial sustainability	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Governance	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.
Improving economy, efficiency and effectiveness	No risks of significant weaknesses identified	No significant weaknesses in arrangements identified, but improvement recommendations made.

5. 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

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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

5. Independence and ethics

Audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. No non-audit services were identified which were charged from the beginning of the financial year to September 2021. The table below sets out the audit related services provided, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Housing Benefits Subsidy return	£18,000 plus £1,000 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 £18,000 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' 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 £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 Pooling of Housing Capital Receipts return	£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.
i4B Holdings Ltd audit	£31,500	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 £31,500 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	£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 £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.

All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 5 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 2021/22 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
High	Prior period error – Bank reconciliation In 2019/20 the bank reconciliation did not include £10m of cash in transit. This is because the accounts payable system was not able to readily flag the cash in transit relating to a £10m payment run on 31 March 2020. The reason for the difference was only identified through combining two different system reports and careful review by the Chief Accountant. Whilst investigating the difference the £10m was journaled into earmarked reserves but not allocated to a specific project so that it could be reversed once the issue was resolved. The error has been corrected in the 2020/21 financial statements.	• Ensure the bank reconciliation includes review of in-year movement on the bank reconciliation to the bank statement, to identify any significant movements in cash in transit. • Discuss errors/issues with external audit as they arise so correct treatment can be agreed in year of audit. Management response The process for bank reconciliation was improved significantly for 2020-21, which is what allowed us to identify this issue. Further enhancements are planned for Oracle Cloud to allow us to keep better track of cash and cash in transit, and make the bank reconciliation more robust.
High	Transaction listings and audit evidence At the start of the audit transaction listings for income and expenditure contained many contra entries which ultimately reverse out and do not form part of the year end balances. We worked with the Council to ensure that transaction listings were cleansed before we selected samples. In some instances the quality of working papers provided has not been consistent. Not all working papers provided were simple to follow which has meant that many sample items have had to be revisited numerous times to get the sufficient level of evidence needed for the audit. **Controls** ● High – Significant effect on financial statements ● Medium – Limited Effect on financial statements ● Low – Best practice	• Transaction listings provided to audit should be cleansed of significant contra entries. • Quality of working papers should be consistent and easy to follow, containing the required information for audit. Management response The challenge in providing listings for audit that remove contra entries is an IT one; Finance will work with colleagues in IT to identify better ways to remove duplicate entries. Training will be provided to colleagues in finance on producing working papers. This year we introduced a peer review process to help address weaknesses in working papers, this will be enhanced in 2021-22, and supported by training on how to review working papers. Heads of Finance will be required to review a sample of working papers for journals for their area and report to the Director of Finance monthly on the quality of these working papers. A review of debtors and creditors will be undertaken to ensure that we have the necessary information for all debtors and creditors.

A. Action plan – Audit of Financial Statements – continued

Assessment	Issue and risk	Recommendations
Medium	Grants register As part of our grants testing we have identified that: • The grants register provided to audit was not up to date or reconciled to the financial statements. • The balance of Covid-19 grants shown in the financial statements did not agree to the grants register.	• Regularly review and update the grants register. • Reconcile the grants register to the financial statements as part of the accounts preparation process. Management response There will be monthly reviews of the grant register, this will include the addition of a trial balance to be incorporated into the register to aid reconciliation. Additional checks will place as part of the accounts preparation process to ensure the accuracy of the information.
Medium	Payroll creditors reconciliation In reconciling payroll creditors management is unable to reconcile a £1.6m difference. The reconciliation is challenging as the items within the balance relate to prior years, the recording of historic information is poor and there is a large volume of transactions.	Complete reconciliation of payroll creditors and identify any issues which may apply to future years' reconciliations. Management response We are currently working on a reconciliation of the payroll creditors, which will address this issue. We have revised processes for Oracle Cloud to make payroll creditors easier to reconcile in future.
Medium	IT audit control findings – Security management 1. Business users with critical access privileges assigned – 15 business users with financial responsibilities also have access to a range of high-risk system administration functions. 2. Segregation of duty conflicts with system administration and application development responsibilities assigned to one user. 3. Management and monitoring of generic administrator account activity – there is currently no audit logging enabled on the Oracle database, and KeePass password manager is located in a folder that is accessible by all of the Oracle EBS team. 4. Weak password configuration settings for Oracle EBS application and database. 5. Leavers accounts not disabled in a timely manner. 6. Lack of formal documentation for review of 'Signon audit reports' (equivalent of security event logs).	Review and address detailed recommendations as set out in the 2020/21 IT Audit Report. Management response As part of the Oracle Cloud re-implementation programme all roles and responsibilities are being reviewed and confirmed if appropriate to each individual user's specific job and duties. In addition, as part of the Release 2 programme of work the GRC module (Governance, Risks and Controls) will be implemented. This will enforce appropriate controls to ensure the correct privileges, segregation of duties and access controls, , are embedded within the system. In addition the audit function is being implemented on key high risk activities from day 1, with the plan to review the extended use of this functionality where necessary, as part of the GRC implementation. The GRC module provides a much richer audit reporting ability; as part of the implementation we will have a discussion with External Audit to ensure that we implement best practice. Please note that Internal Audit have been involved in all key stages of the Programme and have acted in the capacity of quality assurance. There is a separate project being managed by colleagues in Digital Transformation reviewing the Starters, Movers and Leavers process, we will engage with them to ensure that any weaknesses around deactivating leavers in a timely manner are removed.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

B. Follow up of prior year recommendations

We identified the following issues in the audit of London Borough of Brent's 2019/20 financial statements, which resulted in 6 recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report management is implementing all of our recommendations. We have followed up on the implementation of our recommendations and note that 3 are still in progress for completion.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
Ongoing	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.	IFRS16 is expected to deferred until 2022/23. The Council will continue to include disclosure on IFRS16 in the accounting policies.
Ongoing	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.	An on-going review of the debts and credits on the system relating to the collection fund is being undertaken to write off balances that cannot be cleared. As at the beginning of September 2021 £6.2m of the £6.4m balance outstanding at the year-end has been written back from the credits pre 2014. Work is continuing to resolve all credits older than 6 years.
✓	Creditors – purchase order accruals Our testing of PO accruals identified 4/12 items that should have been cleared or cancelled.	Outstanding 2019-20 PO accruals were written off towards the end of 2020-21, and re-accrued where necessary to ensure that unnecessary accruals were not present at year end.
✓	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 has been assigned to review a specific service's unallocated income. The Council's senior managers are having regular updates to monitor the position of unallocated income to ensure that the majority of unallocated income are identified. Unallocated income in 2020/21 is a trivial balance.
✓	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. There is no issue with reconciling Oracle and Northgate for 2020/21.
Ongoing	Oracle security and access controls Control weaknesses were identified in the security and access of the Council's Oracle system.	Oracle Security and Access controls were reviewed and strengthened in r12, and further improvements are planned for cloud as per p32.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Council dwellings			
The council dwellings revaluation uplift approach for 2020/21 will be revised follow the approach used in prior years for consistency and correct application.			
Council dwellings		(£20,000)	
Revaluation reserve		£20,000	
Annual leave accrual			
Annual leave accrual for 2020/21 was overstated.			
Employee expenses	(£2,944)		(£2,944)
Payroll accrual	£2,944		
Movement in Reserves		£2,944	
ST accumulated compensated absences reserve		(£2,944)	
Collection Fund debtors and creditors			
Prepayments of £3.109m were incorrectly included as a credit amount in debtors instead of creditors.			
Collection Fund debtors		£3,109	
Collection Fund creditors		(£3,109)	
Overall impact	£Nil	£Nil	(£2,944)

C. Audit Adjustments

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	Auditor recommendations	Adjusted?
Capital Expenditure and Capital Financing Note Note 24 has been updated to reflect that the MRP charge is £10.3m not £5m.	MRP charge to be correctly reflected in Note 24. **Management response** Additional check to take place as part of the accounts preparation process to ensure the accuracy of the information.	✓
Critical judgements The draft financial statements includes a critical judgement on a number of grants for which the Council acts as agent. Given the grants involved are not material this should not be included as a critical judgement.	Critical judgement in relation to grants to be removed. **Management response** This will be updated for the final accounts.	✓
Estimation uncertainty The draft financial statements includes disclosure of estimation uncertainty in relation to schools' outturn. In 2020/21 the final outturns for all schools were used in the consolidation, so no estimation uncertainty exists.	Estimation uncertainty in relation to schools' outturn to be removed. **Management response** This will be updated for the final accounts.	✓
Minor formatting issues A number of minor formatting issues to improve the presentation of the Council's financial statements.	Some minor formatting issues on the notes to the accounts were agreed with management. **Management response** This will be updated for the final accounts.	✓

D. Fees

We confirm below our final fees charged for the audit and provision of audit related services. There were no fees for the provision of non-audit related services. We would also note that PSAA have made a distribution of £30,320 to support 2020/21 fees.

Audit fees	Proposed fee	Indicative Final fee
Council audit	£227,184	£227,184
Pension Fund audit	£33,000	£33,000
Total audit fees (excluding VAT)	£260,184	£260,184

Audit fees for other services	Proposed fee
Audit related services	
Grants:	
• Housing Benefit Subsidy return	£18,000
• Teachers' Pensions return	£5,000
• Pooling of Housing Capital Receipts return	£4,000
Audit of subsidiaries:	
• i4B Holdings Ltd	£31,500
• First Wave Housing Ltd	£29,500
Total non-audit fees (excluding VAT)	**£88,000**

Grant Thornton

grantthornton.co.uk