

The Audit Findings for London Borough of Brent Pension Fund

Year ended 31 March 2022

September 2022



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Your key Grant Thornton team members are:

Ciaran McLaughlin

Key Audit Partner

T 020 7728 2936

E Ciaran.T.Mclaughlin@uk.gt.com

Reshma Ravikumar

Audit Manager

T 020 7728 3073

E Reshma.Ravikumar@uk.gt.com

Abisoye Ilaka

Audit In-Charge

T 020 7728 2589

E Abisoye.O.ilaka@uk.gt.com

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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 Pension Fund 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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of London Borough of Brent Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 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 Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its 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.

Our audit work was completed on site/remotely during July-September. We have not identified any adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- final manager, and partner review of the audit file and resolution of any residual queries arising;
- completion of Level 2 and 3 testing – awaiting response from individual fund managers;
- subsequent events confirmation;
- 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.

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 will be discussed with management and the Audit and 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 Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- 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 and Standards Committee meeting on 29 September 2022. These outstanding items have been 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.

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.

We have revised the performance materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.

We detail in the table on the right our determination of materiality for Brent Pension Fund.

Pension Fund Amount (£) Qualitative factors considered

Materiality for the financial statements	11,338,000	This represents 1% of the Net Assets reported at 31 March 2022.
Performance materiality	7,936,600	This represents 70% of the Materiality threshold above. This has been reduced from the planning stage from 75%.
Trivial matters	396,800	This balance is set at £800k being 5% of the overall materiality.



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
<p>Management override of controls</p> <p>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 Pension Fund faces external scrutiny of its spending and its stewardship of its funds, this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates, and transactions outside the course of business as a significant risk for the Pension Fund, which was one of the most significant assessed risks of material misstatement.</p>	<p>We have:</p> <ul style="list-style-type: none"> • 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. <p>Our audit work has not identified any issues in respect of management override of controls.</p>
<p>Valuation of Level 3 investments</p> <p>You value your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date.</p> <p>By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £81m) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315, significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p>	<p>We have:</p> <ul style="list-style-type: none"> - Evaluated management's processes for valuing Level 3 investments; - Reviewed the nature and basis of estimated values and considered the assurance management has over the year-end valuations provided for these types of investments, against the requirements of the Code; - Independently requested year-end confirmations from investment managers and custodian; - Obtained audited financial statements for Capital Dynamics (Private Equity/infrastructure), LCIV Infrastructure, LCIV Private Debt and Alinda (Infrastructure) as at 31 December 2021 and we have reconciled any cash movements between the intervening period to 31 March 2022. For one of the sub-funds within Capital Dynamics, the 31 December 2021 audited financial statements are not available, the value of this fund is £120k and as such, we have ensured that the impact of this is clearly trivial; - For all funds, reviewed investment manager service auditor report on design effectiveness of internal controls. <p>Our audit work is substantially complete subject to fund manager response to the queries raised for Capital Dynamics. Our work to date has not identified any issues.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

New system implementation

In October 2021, the Oracle Cloud Fusion system replaced the Pension Fund's Oracle EBS system used for financial, payroll and HR transactions.

Data migration is fundamental to any business technology transformation and there is a risk of error when data is moved from one system to another. New systems are often evolving and present a greater risk material misstatements.

Given the nature of this transition, we have identified a risk of material misstatement in relation to the system migration, at financial statements level.

We have:

- performed detailed testing over security management, technology acquisition and infrastructure as well as development and maintenance
- evaluated the design and implementation of controls management put in place to ensure balances at month six were moved correctly to month seven are complete and accurate
- reconciled opening balances at month seven to closing balances at month six, including reconciliations of the general ledger, accounts payable, accounts receivable and assets
- In addition to the above procedures, our IT auditors performed an assessment of the Council's processes and controls used as part of the transitioning from Oracle EBS to Oracle Cloud Fusion during the audit period.

We have followed up on work which our IT specialist recommended us to do which was to ensure that a bank reconciliation was carried out in both R12 (the old system) and Oracle Cloud (the new system) in the month which the system implementation occurred.

Our work on the New System Implementation is complete. We have nothing else to bring to the attention of the Audit and Standards Committee apart from the point we have raised above.

2. Financial Statements – key judgements and estimates

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £101.3m	<p>The Pension Fund has investments in the following:</p> <ul style="list-style-type: none"> - Capital Dynamics (Private Equity and Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £36.2m; - Alinda (Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £23.4m; - LCIV (Infrastructure) that in total are valued on the balance sheet as at 31 March 2022 at £21.4m; and - LCIV (Private Debt) that in total are valued on the balance sheet as at 31 March 2022 at £20.3m. <p>Management have reviewed the year end valuations provided by the Fund Managers including the audited financial statements dated 31 December 2021. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management have used the cash flows adjusted valuation provided by the custodian, Northern Trust.</p> <p>The value of the investment has increased by £20.2m in 2020/21, largely due to the increase in LCIV Infrastructure by £9.6m and acquisition of LCIV Private Debt in 2021/22.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> - We have deepened our risk assessment procedures performed including understanding processes and controls around the valuation of Level 3 investments. - We are satisfied that the movements between 31 December 2021 and 31 March 2022 are reconciled to appropriate and known movements in the intervening period. For one of the sub-funds within Capital Dynamics, the 31 December 2021 audited financial statements are not available, the value of this fund is £120k and as such, we have ensured that the impact of this is clearly trivial. - We are satisfied that the method, data and assumptions used by management to derive the accounting estimate is appropriate. - We are satisfied that the disclosure of the estimate in the Fund's financial statements is sufficient. - We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations. <p>Our work to date has not identified any issues. We will update the Audit and Standard Committees of our findings on completion of our work.</p>	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
Level 2 Investments – £1,002.3m	<p>The Pension Fund have investments in Pooled investments and Pooled property investments, which in total are valued on the balance sheet as at 31 March 2022 at £1,002.3m</p> <p>The underlying investments are traded on an open exchange/market although the pooled valuation of the investment is subjective.</p> <p>The Fund obtains valuations from the fund manager and custodian to ensure that valuations are materially fairly stated.</p>	<p>From the procedures undertaken:</p> <ul style="list-style-type: none"> - We have reviewed the estimation process for the Level 2 investments and are satisfied that these are in line with industry standards. - We have compared the valuations provided by the fund managers with the custodian and are satisfied that there are no significant differences in the valuations. - We have reviewed the accounting policies and valuation techniques stipulated within the financial statements and these are in line with expectations. <p>Our work to date has not identified any issues. We will update the Audit and Standard Committees of our findings on completion of our work.</p>	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 - 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 and Standards Committee. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund to be signed alongside the final draft of the financial statements in advance of the conclusion of the audit.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management was provided.

2. Financial Statements - other communication requirements



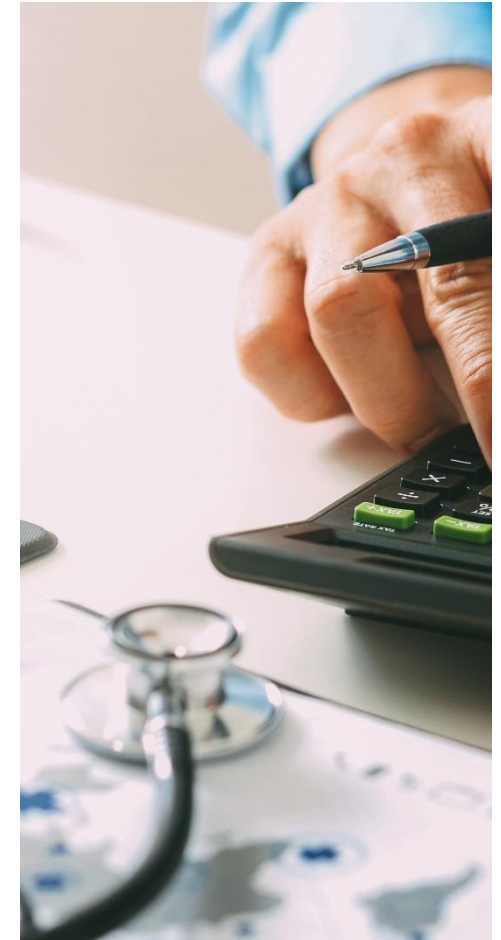
Our responsibility

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	<p>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:</p> <ul style="list-style-type: none"> 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 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. <p>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 Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> the nature of the Pension Fund and the environment in which it operates the Pension Fund's financial reporting framework the Pension Fund's system of internal control for identifying events or conditions relevant to going concern management’s going concern assessment. <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> a material uncertainty related to going concern has not been identified 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
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report as part of the December 2022 Audit and Standards Advisory Committee.



3. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

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 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

Appendices

A. Action plan – Audit of Financial Statements

We have identified 4 recommendations for the Pension Fund 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 2022/23 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
<p>High</p>	<p>Segregation of duties conflicts between finance and system administration roles in Oracle Cloud.</p> <p>Our audit identified the following segregation of duties conflicts for users in Oracle Cloud:</p> <ul style="list-style-type: none"> • A Senior Finance Analyst had access to the Application Implementation Consultant and IT Security Manager roles. • A Senior Finance Analyst had access to six Brent L3 Support roles. • The Head of Finance had access to the IT Security Manager role. • Five finance users who had access to the Financial Integration Specialist role (we note that this access was revoked on 14 April 2022). • 13 members of the Payroll team and four members of the Learning and Development team who had access to the Brent HCM Application Administrator role. <p>The Pension Fund confirmed that some of these users required this level of access to complete the closedown process for the production of the financial statements.</p> <p>Risk</p> <p>Bypass of system-enforced internal control mechanisms through inappropriate use of administrative access rights increases the risk of financial misstatement through fraud or error, as a result of users making unauthorised changes to transactions and system configuration parameters.</p>	<p>It is recommended that the Pension Fund undertake a full review of all users who have been assigned access to system administration roles and revoke access to those system administration roles which do not align with the user's roles and responsibilities.</p> <p>Furthermore, the Pension Fund should undertake an assessment of the specific access that is required to complete the year end closedown process and build custom roles within Oracle Cloud rather than assigning powerful system administrator roles.</p> <p>Management response</p> <p>This finding is acknowledged and Brent have since implemented a plan to remove the security roles from the users post 31-Mar-2022 and this is being tracked to ensure sufficient controls are in place to avoid this risk in the future.</p> <p>A review will be carried out to assess the feasibility of building custom roles and taking into account cost, time and expertise needed to build these in time for the 2022/23 year end process.</p>

Controls

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

A. Action plan – Audit of Financial Statements cont'd

Assessment	Issue and risk	Recommendations
Medium	<p>Lack of audit logging in Oracle Cloud.</p> <p>Our review identified that whilst audit logging is available within Oracle Cloud, this has not been enabled.</p> <p>Risk</p> <p>Not enabling and monitoring audit logs increases the risk that unauthorised system configuration and data changes made using privileged accounts will not be detected by management, which could impact the security of Oracle Cloud and the integrity of the underlying database.</p>	<p>It is recommended that the Council implement audit logging for financially critical areas including, but not limited to:</p> <ul style="list-style-type: none"> • Accounts Payable (including Suppliers); • Cash Management; • Accounts Receivable; and • General Ledger. <p>The auditing should be sufficiently detailed to capture any changes made to Oracle Cloud such as changes to workflow approval rules or system configurations.</p> <p>Management response</p> <p>This finding is acknowledged a review will be carried out on the impacts of turning on audit logging for these areas in terms of cost, system performance and dependencies.</p>
Low	<p>Monitoring of scheduled processes.</p> <p>Our audit identified that exception report notifications are configured to be sent to the Senior Finance Analyst, rather than the internal Oracle Cloud Support team.</p> <p>Risk</p> <p>Restricting exception report notifications to certain individuals increases the risk that exceptions are not identified and resolved in a timely manner in their absence. This could result in incomplete or inaccurate financial information being posted between accounts within Oracle Cloud.</p>	<p>It is recommended that the Council configure all exception report notifications, for key financial scheduled processes, to be sent to a shared mailbox so that they can be monitored and resolved in a timely manner by the Oracle Cloud Support team.</p> <p>Management response</p> <p>This finding is acknowledged and a review will be carried out determine how these notifications could be efficiently routed to the Oracle Cloud Application Support (OCAS) Team and which notifications should be in scope.</p>

Controls

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

A. Action plan – Audit of Financial Statements cont'd

Assessment	Issue and risk	Recommendations
<p>Low</p>	<p>Project documents maintained in an unsecured format.</p> <p>Our audit identified that draft 'solution design documents', with unaccepted track changes, for a number of key process areas of the Oracle Cloud project were kept on the project SharePoint site. These documents could be accessed by staff from the Council's System Integrator and Infosys teams.</p> <p>Risk</p> <p>There is a risk that unauthorised changes could be made to the solution design documents, which could result in processes and controls not operating as anticipated. This could also result in financial misstatement through fraud or error if certain controls are not implemented as planned.</p>	<p>For future major projects, it is recommended that the Council consider the following measures to help safeguard key project documentation:</p> <ul style="list-style-type: none"> • Ensuring that changes to key documents are authorised before processed, reviewed by someone independent of the author with any comments arising being addressed in a timely manner. • Restricting access to editable versions of documents to authorised personnel, which should exclude the System Integrator team. • Publishing PDF versions of key documents for use by the project team, these documents should include version control information such as dates when they were signed off and by whom. <p>Management response</p> <p>This finding is acknowledged and a full review of the SharePoint site where project documentation is stored is being carried out to restrict access or editing rights. Following this any documentation published or circulated should be in PDF format.</p>

Controls

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

B. 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.

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?
Minor presentational and disclosure issues	<p>The audit team propose that the Pension Fund amend all other minor and presentational issues highlighted in the audit.</p> <p>Management response This will be updated.</p>	✓

C. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Indicative Final fee
Pension Fund Audit	£37,808	£37,808
Additional fee for work arising from delayed response from Management and the investment managers		£2,500
Total audit fees (excluding VAT)	£37,808	£40,308

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements.

