London Borough of Brent audit plan

Year ending 31 March 2024

London Borough of Brent

February 2024

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key matters

Local context

The Council has successfully balanced its budget over the last 10 years – saving around £196million. In February 2023, the Council agreed £18m of savings spread across 2023-24 and 2024-25. Looking forward, further savings are required in 2024-25 and 2025-26 – the current working assumption is that £8m of savings will be required to balance the budgets of those years.

For 2022-23, the Council's General Fund delivered at break even with service overspend of £3.7m in the Children & Young People's department as a result of increased placement and staffing costs. Adult Social Care and Health overspent by £0.9m. The budgeted use of corporate contingencies of £4.2m resulted in an overall breakeven position for the General Fund. For 2022-23 the Council had £191.6m of capital spend, equating to 82% of the approved capital programme budget, and was under spent by £41.1m.

The Council has revised budgets of £376m for 2023-24 and £426.5m for 2024-25. The total revised capital budget for 2023-24 to 2027-28 is £1,079.6m per the Medium Term Financial Plan (MTFP).

Like other councils, the London Borough of Brent has felt the impact of high inflation, which is driving up the cost of goods, services and supplies. This has put the Council's budget under greater pressure than ever. Like most local authorities across the country, the Council has made the difficult decision to increase council tax by 4.99% for 2023-24.

Housing Revenue Account (HRA)

For 2023-24, the government has introduced a rent rise limitation. The average rent currently sits at £133.42 per week, an increase of 7% when compared to the previous year, as opposed to an 11.1% increase if the CPI plus 1% continued. This represented a £2m income reduction in the HRA. The HRA has to modify service delivery and achieve considerable savings in order to close the gap between the rental income raised and the increased cost of delivering the service as a result of inflation.

Dedicated Schools Grant (DSG)

At the end of 2022-23, the overall DSG deficit in Brent has reduced to £13.8m following an in-year surplus of £1.3m added to the brought forward deficit balance from 2021-22 of £15.1m. In the last few years the DSG deficit has built up due to the increasing number of children with Education, Health and Care Plans (EHCP), funded through the High Needs Block.

Key matters

National context

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s.114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent Value for Money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit reporting delays

Against a backdrop of ongoing audit reporting delays, in October 2023 PSAA found that only five 2022-23 local government accounts had been signed by the September deadline. In June 2023 the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our repot About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts.

In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

Key matters

Our responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out in this Audit Plan will be agreed the Corporate Director Finance and Resources.
- To ensure close work with our local audited bodies and an efficient audit process, our preference as a firm is work on site with you and your officers. Please confirm in writing if this is acceptable to you, and that your officers will make themselves available to our audit team. This is also in compliance with our delivery commitments in our contract with PSAA.
- We offer a private meeting with the Chief Executive twice a year, and with the Corporate Director Finance and Resources quarterly as part of our commitment to keep you fully informed on the progress of the audit.
- At an appropriate point within the audit, we would also like to meet informally with the Chair of your Audit and Standards Committee, to brief them on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work.
- Our Value for Money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness. Should the NAO revise the VFM code during 2023-24, these areas of focus may change and this line may need amending for different emphases.
- We will continue to provide you and your Audit and Standards Committee with sector updates providing our insight on issues from a range of sources and other sector commentators via our audit committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.

Key matters

Our responses

- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- There is an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to ongoing financial pressures. We are required to identify a significant risk with regard to management override of controls.
- There is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue – refer to page 12 where we explain our rebuttal of this presumed risk.

Introduction and headlines

Purpose

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

Respective responsibilities

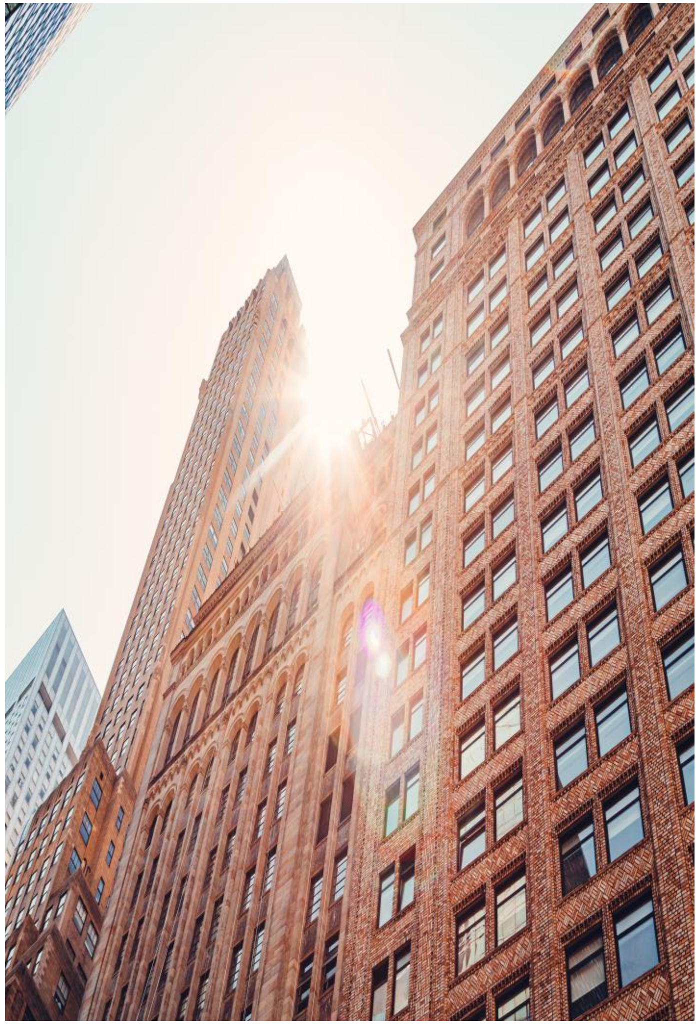
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code. This Audit Plan sets out the implications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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Standards Committee); and we consider whether there are sufficient arrangements in place at the Council and group for securing economy, efficiency and effectiveness in your use of resources. Value for Money relates to ensuring that resources are used efficiently in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

Significant risks

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

- Revenue recognition (rebutted)
- Management override of controls
- Valuation of land and buildings
- Valuation of council dwellings
- Valuation of net pension fund liability

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

Group audit

The Council is required to prepare group financial statements that consolidate the financial information of:

- London Borough of Brent
- First Wave Limited
- I4B Holdings Limited
- LGA Digital Services Limited
- Barham Park Trust

Materiality

We have determined planning materiality to be £16.1m (PY £16.1m) for the group and £16.0m (PY £16.0m) for the Council, which equates to 1.5% of your prior year gross operating costs for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.8m (PY £0.8m).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has not identified any risks of significant weakness. We will continue to update our risk assessment until we issue our 2023-24 Auditor's Annual Report.

Audit logistics

Our planning visit took place in November 2023 – January 2024 and our final visit will commence in July 2024. Our key deliverables are this Audit Plan, our Audit Findings Report and our Auditor's Annual Report.

Our preference is for all our work to take place on site alongside your officers.

The PSAA scale fee for the audit will be £503,089 (PY: £246,702) subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. The fee for work in relation to ISA 315 is £12,550. The total proposed fee is £515,639.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined financial statement materiality based on a proportion of the gross expenditure of the group and the Council for the financial year. Materiality at the planning stage of our audit is £16m, which equates to 1.5% of your prior year gross expenditure for the period.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; – assist in establishing the scope of our audit engagement and audit tests; – determine sample sizes; and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £nil in this area.

Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.
4	**Other communications relating to materiality we will report to the Audit and Standards Committee** Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.	We report to the Audit and Standards Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.8m (PY £0.8m). If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit and Standards Committee to assist it in fulfilling its governance responsibilities.

Our approach to materiality

	Amount (£)	Qualitative factors considered
Materiality for the Council's financial statements	16,000,000	1.5% of the gross expenditure for the year ended 31 March 2023.
Materiality for specific transactions, balances or disclosures - senior officer remuneration	Nil	This note is an element of the financial statements which is of genuine interest and concern to the user of the accounts, with the salaries of senior officers sometimes the subject of adverse publicity. The area requiring judgement is what level of error within the disclosures made would result in us qualifying our opinion. We will review all the senior officer's remuneration disclosures as they are sensitive by nature.
Group materiality	16,100,000	1.5% of the gross expenditure for the year ended 31 March 2023.

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.

Risk	Risk relates to	Reason for risk identification and key aspects of our proposed response
The revenue cycle includes fraudulent transactions (rebutted)	Council	Under ISA (240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and nature of the revenue streams at the London Borough of Brent, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the London Borough of Brent, mean that all forms of fraud are seen as unacceptable. We do not consider this to be a significant risk for the London Borough of Brent and such there is no specific work planned for this risk. In order to get assurance over revenue, we will: • Select a sample from each material revenue stream and test to supporting information and subsequent receipt of income to gain assurance over accuracy, occurrence and completeness. • Inspect transactions which occurred in the year and ensure that they have been included in the current year. • Confirm our understanding of the business process and determine of there are any relevant controls.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Group and Council	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride 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 Council and group, which was one of the most significant assessed risks of material misstatement.	To address this risk we will: • Evaluate the design effectiveness of management controls over journals. • Analyse the journals listing and determine the criteria for selecting high risk unusual journals. • Test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	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 (£1,097.8m for prior year) 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 2024 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.	To address this risk we will: • Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluate the competence, capabilities and objectivity of the valuation expert. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding. • Test revaluations made during the year to see if they have been input correctly to the Council's asset register and financial statements. • Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk

Valuation of council dwellings	Council	The Council owned 8,220 dwellings as at 31 March 2023. The Council is required to re-value 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 conducted full revaluation of its housing stock in 2021-22 using the Beacon methodology. The valuer will review market changes from 1 April 2023 to 31 March 2024 to correctly state the value of HRA stock held by the Council during the financial period in current terms. 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 £827.8m as at 31 March 2023. This represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.
		
		We identified the valuation of council dwellings, as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.
			To address this risk we will:
			• Evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work.
			• Evaluate the competence, capabilities and objectivity of the valuation expert.
			• Write to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.
			• Engage our own valuer expert, Gerald Eve, to provide commentary on:
			    • the instruction process in comparison to requirements from CIPFA/IFRS/RICS; and
			    • the valuation methodology and approach, resulting assumptions adopted and any other relevant points.
			• Challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding.
			• Conduct sample testing of Beacon properties to ensure representative properties have been used in the valuation, and correctly applied to other similar properties.
			• Review the estimate against valuation trends of similar properties in London.
			• Evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end.

Significant risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of pension fund net liability	Council	The pension fund net liability, as reflected in the Council's balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£262m) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter.	To address this risk we will: • Update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls. • Evaluate the instructions issued by management to their management expert (actuary) for this estimate and the scope of the actuary's work. • Assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.

Other risks

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Fraud in expenditure recognition (completeness of non-pay expenditure)	Council	As most public bodies are net spending bodies, 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 that budgeted by under-accruing non-pay expense incurred during the period or not record expenses accurately to improve financial results. In line with the Public Audit Forum Practice Note 10, having considered the risk in relation to fraud in expenditure recognition and the nature of the Council's expenditure streams, we determine that the risk of fraud arising from expenditure can be rebutted because: • There is little incentive to manipulate expenditure recognition. • Opportunities to manipulate expenditure are very limited. • The culture and ethical framework of local authorities, including the London Borough of Brent, mean that all forms of fraud are seen as unacceptable. However, we have identified that due to the level of estimation involved in manual accruals of expenditure, and the potential volume of large accruals at year-end, there is an increased risk of error in the completeness of expenditure recognition.	To address this risk we will: • Inspect transactions incurred around the end of the financial year to assess whether they had been included in the correct accounting period. • Inspect a sample of accruals made at year end for expenditure but not yet invoiced to assess whether the valuation of the accrual was consistent with the value billed after the year-end. We will also compare size and nature of accruals at year-end to the prior year to help ensure completeness of accrued items. • Investigate manual journals posted as part of the year-end accounts preparation that reduce expenditure, to assess whether there is appropriate supporting evidence for the transaction.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Group audit scope and risk assessment

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

The group risk assessment for 2023-24 has not identified any changes from the prior year as shown below.

Component	Individually significant?	Level of response required under ISA (UK) 600	Risks identified	Planned audit approach
London Borough of Brent	Yes		See pages 12 to 17	Full scope audit performed by Grant Thornton UK LLP
First Wave Housing	No		None	Analytical review performed by Grant Thornton UK LLP
I4B Holdings Ltd	No		None	Analytical review performed by Grant Thornton UK LLP
LGA Digital Services	No		None	Analytical review performed by Grant Thornton UK LLP
Barham Park Trust	No		None	Analytical review performed by Grant Thornton UK LLP

Audit scope

- Audit of the financial information of the component using component materiality
- Audit of one more classes of transactions, account balances or disclosures relating to significant risks of material misstatement of the group financial statements
- Review of component's financial information
- Specified audit procedures relating to risks of material misstatement of the group financial statements
- Analytical procedures at group level

Other matters

Other work

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

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

Other material balances and transactions

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

Progress against prior year audit recommendations

We identified the following issues in our 2022-23 audit of the Council's financial statements, which resulted in 13 recommendations being reported in our 2022-23 Audit Findings Report. We have followed up on the implementation of our recommendations and all are in process of being resolved.

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1	In progress	During our testing of housing benefit debtors, the Council provided us with a report as at 26 June 2023 from which they removed unrecoverable debt and debtors raised between 1 April 2023 and 26 June 2023 to get the housing benefit debtor balance at 31 March 2023. The Council struggled to provide us with the report as it has to rely on a third party to obtain the information in the report. We also identified 1 error from the 6 samples tested initially. This brought the reliability of the report into question.	Management is in the process of resolving the issues.
2	In progress	**Segregation of duties (SoD) conflicts between finance / payroll and system administration roles in Oracle Cloud.** IT Audit identified that a Senior Finance Analyst had access to the Application Implementation Consultant role. **Risk** 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.	Management is in the process of resolving the issues.
3	In progress	**Excessive access assigned to HR and Payroll users.** IT Audit identified 19 members of the Payroll, Learning and Development, and Training teams have been assigned access to the Brent HCM Application Administrator security role. The Council informed our IT team that the role is required to enable system configuration to be undertaken as part of this team, such as for pay awards and performance enrolments. The Brent HCM Application Administrator role provides these individuals with significant levels of access, enabling them to alter system behaviour and create workers in Oracle Cloud. **Risk** 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.	Management is in the process of resolving the issues.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4	In progress	From our journal testing, we identified that a significant number and value of journals are processed by a relatively high number of users (60 users) during the year. This represents an enhanced risk of error and fraud. It also indicates an inefficiency in the Council's processes around processing financial transactions.	Management is in the process of resolving the issues.
5	In progress	From our accruals testing, we identified 3 errors initially, (2 errors were from Wates construction limited and the other was from Airey Miller Limited). We tested 5 more accruals from Wates construction and we identified 2 more errors. We extrapolated the 5 errors (£256k) across the accrual population, and we got an extrapolated error of £1.29m as we have recorded as an unadjusted error at Appendix D. The five accruals we processed by different people. Although we have satisfied that the accruals balance for the current year is not materially misstated, the Council needs to ensure that accruals are based on the best available and reliable information to avoid a material misstatement in the future.	Management is in the process of resolving the issues.
6	In progress	We observed download of the general ledger transactions as part of our journal testing for each month. The number of journals raised in November was considerably larger than the other months. This caused a number of issues with the journal listing not being exported correctly from the Council which our digital audit team had to assist with. The reason for this was caused by the fact that CTax direct debit journals for April up to October were all created in November. We have understood from the Council that this was a one-time experiment performed which they will not repeat.	Management is in the process of resolving the issues.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
7	In progress	**Seeded roles with SoD conflicts** IT Audit identified that the Council has cloned seeded roles provided by Oracle for use in day to day operations. Of these cloned seeded roles, it was identified that the Brent Collections Debt Manager (as well as the seeded Collections Manager role) contain the following privileges which allow a user to alter system behaviour and security: - FND_APP_MANAGE_DATA_SECURITY_POLICY_PRIV - FND_APP_MANAGE_PROFILE_OPTION_PRIV - FND_APP_MANAGE_PROFILE_CATEGORY_PRIV - FND_APP_MANAGE_TAXONOMY_PRIV - FND_APP_MANAGE_DATABASE_RESOURCE_PRIV **Risk** 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.	Management is in the process of resolving the issues.
8	In progress	**Intangible assets useful lives** From our testing of the amortisation of intangibles assets, we identified that there are some intangible assets within the fixed asset register(FAR) which have a useful economic life (UEL) of 0, 10 and 50 years however within the Council's accounting policy on the amortisation of intangible assets, the UEL of assets quoted as being within the range of 5-7 years. We challenged management about this, and they accepted that the UEL of 0 have been incorrectly recorded on the FAR. The UEL of 50 years on the FAR relates to a PFI asset and the UEL of 10 years relate to IT software. Both are within the expected range for UEL for the types of assets which they are. The inconsistency between the UEL on the FAR and the accounting policy results in the UEL of 52% of intangible assets in the FAR being out of range with the UEL in the accounts. We have estimated that the difference in the UEL has resulted in £1.2m variance the expected and actual amortisation cost for the year of intangible assets. For 2022-23, the variance is below our PM and for the purposes of analytical review, the variance is acceptable, however if management do not correctly update the data on the FAR and clarify their accounting policy, this could result in a material difference in the future.	Management is in the process of resolving the issues.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
9	In progress	**PFI model** From our testing of PFI assets, we identified that, the unitary payments for PFI which are split into payments for finance and operating have been incorrectly recorded on the PFI model even though the actual unitary payments in the accounts is correct for the year as this is based on the actual accommodation rates. We also identified during our PFI provisions testing that the long-term provision in the PFI model did not agree with the long-term PFI provisions in the accounts. We challenged management and they explained that the wrong closing value for long term PFI provisions was recorded on the model, this is because the TB used in the model had the wrong value due to an adjustment for the provision which was completed in period 13. We have gained assurance over the correct closing balance figure and the draft accounts and trial balance are correct (it is just PFI model and working paper that is incorrect). There is no impact on the accounts. The client has confirmed that the correct opening balance figure will be used for the 2023-24 model. We have spoken internally to the GT PFI modelling team who have confirmed that this is a closing balance adjustment and therefore no further work is needed. We have raised a control deficiency that the PFI modelling team and provisions team confirm their figures with each other before they complete the PFI model.	Management is in the process of resolving the issues.
10	In progress	**Change in circumstances testing** From our sample testing of payroll change in circumstances, out of a sample of 12 cases tested, we identified one case which the sample tested was a valid change in circumstance however it was missing the appropriate approval. If the approval process for change in circumstances is not followed, this can result in unapproved changes of employees' circumstances on the system.	Management is in the process of resolving the issues.
11	In progress	From our testing of operating leases, we identified that some leases have been misclassified as operating leases when they should have been finance leases. We also identified some leases which have been duplicated in both the operating lease and finance lease listings. **Risk** If the listing for operating and finance lease are not updated, then, the incorrect information will feed into the accounts which can lead to errors in the lease note. Based on the audit work we have performed this year management had to adjust the both the operating and finance lease notes for the errors which we identified where the council is acting as a lessor.	Management is in the process of resolving the issues.

Progress against prior year audit recommendations

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
12	In progress	When reviewing the fixed asset register, we identified a high number of vehicle, plant and equipment assets in the fixed asset register (FAR)which had gross book values brought forward and nil carry forward values with no movement in the year. We selected a sample of 5 assets to gain an understanding of why these assets ware still on the FAR and if they had actually been fully depreciated and being shown in the FAR at the correct carry forward balance. Of these 5 assets, the Council could not locate 4 assets, they could locate the 5th but not to the value in the FAR. Therefore, it is reasonable to conclude that these assets have no net carry forward value and they do not impact the PPE balance in the accounts however the issue is more of an overstatement of the gross book value. This does not impact the net book value which feeds into the balance sheet, a control recommendation has been raised.	Management is in the process of resolving the issues.
13	In progress	**Lack of audit logging for configurations in Oracle Cloud** IT Audit note that the Council have implemented audit logging for some areas however, this does not include key system configurations such as the AP_SYSTEM_PARAMETERS_ALL table. **Risk** 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.	Management is in the process of resolving the issues.

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

IT system	Audit area	Planned level IT audit assessment
Oracle	Financial reporting	ITGC assessment (design and implementation effectiveness only)
Pay360	Council Tax, Business Rates, Benefits, Grants	ITGC assessment (design and implementation effectiveness only)
Asset Management	Property, plant & equipment	ITGC assessment (design and implementation effectiveness only)

Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

We have not identified any risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our 2023-24 Auditor's Annual Report.

Audit logistics and team

November 2023 to January 2024
Planning and risk assessment

Audit & Standards Committee
February 2024
Audit Plan

Year end audit
July to September 2024

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

Audit opinion

Audit & Standards Committee
TBC
Auditor's Annual Report

Asad Khan, Audit Manager

Key audit contact responsible for the day to day management and delivery of the audit work.

Sheena Philips, Senior Audit Manager

Sheena will work with your finance team to ensure efficient delivery of testing and agreement of accounting issues on a timely basis. Sheena will undertake review of the team's work and draft reports. She is the key contact responsible for delivery of the audit.

Sophia Brown, Key Audit Partner

Sophia is responsible for the overall client relationship, quality control, provision of the audit opinion, meeting regularly with key internal stakeholders and final authorisation of reports. Sophia will share her wealth of knowledge and experience across the sector, providing challenge and sharing good practice. Sophia will ensure our audit is tailored specifically to you and is responsible for the overall quality of our audit work.

Audited entity responsibilities

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

Our requirements

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

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

Audit fees and updated auditing standards

The contract was re-tendered in 2023 and Grant Thornton have been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023-24 audit is £503,089. The fee for ISA 315 in 2023-24 will be £12,550. This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous audit year (exception for new clients in 2023-24 only)
- Production of the draft audit planning report to audited body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed

Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/

Assumptions

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

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

Updated auditing standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements (ISA 220). We confirm we will comply with these standards.

Audit fees

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Assumptions

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

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

Previous year

In 2022-23 the scale fee set by PSAA was £173,434. The actual fee charged for the audit was £246,702.

Relevant professional standards

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

Audit fees – detailed analysis

	Actual fee 2022-23	Proposed fee 2023-24
Brent Council audit	£241,702	£503,089
ISA 315	£5,000	£12,550
Total audit fees (excluding VAT)	£246,702	£515,639

IFRS 16 'Leases' and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration." In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet' by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months)

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an NHS body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset.

Council's systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we have sent the inquiries to the management with our other audit queries. We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. This is available on the following link:

IFRS 16 Application Guidance December 2020.docx (publishing.service.gov.uk)

Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified. The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the group and Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member firms will be included in our Audit Findings report at the conclusion of the audit. None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related			
I4B Holdings Ltd Audit	TBC	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant (PY £40,000) in comparison to the total fee for the audit of £503,089 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
First Wave Housing Ltd Audit	TBC	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant (PY £37,000) in comparison to the total fee for the audit of £503,089 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.
Brent Pension Fund Audit	TBC	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant (£60,346) in comparison to the total fee for the audit of £503,089 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.
Total audit fees (excluding VAT)	£TBC		

Independence and non-audit services

Service	Fees £	Threats	Safeguards
Audit related			
Certification of Housing Capital receipts grant	10,000	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 not significant £10,000 in comparison to the total fee for the audit of £503,089 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teachers Pension Return	12,500	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 not significant £12,500 in comparison to the total fee for the audit of £503,089 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Benefit Return	35,640+day rate of £1,650 for additional testing	Self-interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is not significant £35,640 plus day rate of £1,650 for additional work) in comparison to the total fee for the audit of £503,089 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.
Total	£58,140		

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence.	•	•
Significant matters in relation to going concern	•	•
Matters in relation to the group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	•	•
Views about the qualitative aspects of the group's accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		n/a

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud(deliberate manipulation) involving management and/or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton

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