External Audit Report 2017/18

London Borough of Brent

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July 2018

Content

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This report is addressed to London Borough of Brent (the Authority) and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Andrew Sayers, the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (0207 694 8981, andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Important notice

This report is presented in accordance with our PSAA engagement. Circulation of this report is restricted. The content of this report is based solely on the procedures necessary for our audit. This report is addressed to London Borough of Brent (the Authority) and has been prepared for your use only. We accept no responsibility towards any member of staff acting on their own, or to any third parties. The National Audit Office (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 Authority. External auditors do not act as a substitute for the Authority's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

Basis of preparation: We have prepared this External Audit Report (Report) in accordance with our responsibilities under the National Audit Office Code of Audit Practice (the Code) and the terms of our Public Sector Audit Appointments Ltd (PSAA) engagement.

Purpose of this report: This Report is made to the Authority's Audit Committee in order to communicate matters as required by International Audit Standards (ISAs) (UK and Ireland) and other matters coming to our attention during our audit work that we consider might be of interest and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report or for the opinions we have formed in respect of this Report.

Limitations on work performed: This Report is separate from our audit opinion and does not provide an additional opinion on the Authority's financial statements nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report. The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

Status of our audit: Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit Committee meeting. The following work is ongoing:

Financial statements audit:

- Confirmation of adjustments to be made to the operating and finance lease notes and any impact on the balance sheet;
- Review of MiRs and LOBO paper received 18 July;
- Outstanding queries mainly on Collection Fund, Debtors and Creditors;
- Final Partner review of file
- Closedown procedures including receipt of management representation letter

Summary

Financial statements audit – see section 2 for further details

Subject to all outstanding queries and procedures being satisfactorily resolved we intend to issue an unqualified audit opinion on the Authority's financial statements for the deadline of 31 July 2018, following the Audit Committee adopting them and receipt of the management representations letter.

We also anticipate issuing an unqualified audit opinion in relation to the Pension Fund's financial statements for the deadline of 31 July 2018.

We have completed our audit of the financial statements. We have read the Narrative Report and the Annual Governance Statement (AGS). Our key findings are:

- There are no unadjusted audit differences, explained in section 2 and appendix 2.
- We agreed presentational changes to the accounts with Finance, mainly related to compliance with the CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.
- In additional to our routine requests we are asking for management representations over confirmation that there have been no variations made to the PFI contracts.

We reviewed the Narrative Report and AGS and have no matters to raise with you.

We did not receive any queries or objections from local electors this year.

We are now in the completion stage of the audit and anticipate issuing our opinion by 31 July 2018. We also intend to issue our 2017/18 Annual Audit Letter by 31 August 2018. The audit cannot be formally concluded and an audit certificate issued as we are considering an electors objection relating to 2015/16. Until we have completed our consideration of this, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014.

Value for money – see section 3 for further details

Based on the findings of our work, we have concluded that the Authority has adequate arrangements to secure economy, efficiency and effectiveness in its use of resources. We therefore anticipate issuing an unqualified value for money conclusion for the deadline of 31 July 2018.

Summary

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- Significant difficulties encountered during the audit;
- Significant matters arising from the audit that were discussed, or subject to correspondence with management;
- Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions / objections, opening balances, etc.).

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider or the public should know about.

We have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report relating to the audit of the Authority's 2017/18 financial statements.

We are satisfied that the Authority has addressed the recommendations raised in our ISA260 report in 2016/17. We have made four new recommendations as a result of our 2017/18 work. The key recommendations relate to the Fixed Asset Register and preparing a complete year end trial balance for the Pension Fund. All recommendations are shown in appendix 1.

We also undertake the audit of the Housing Subsidy Benefit Claim, Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant. These have not yet been started and the deadlines are 30 November. The fees for this work are explained in Appendix 4.

Financial statements audit

We audit your financial statements by undertaking the following:

Work Performed	Accounts production stage: Before	During	After
1. Business understanding: review your operations	✓	✓	–
2. Controls: assess the control framework	✓	–	–
3. Prepared by Client Request (PBC): issue our prepared by client request	✓	–	–
4. Accounting standards: agree the impact of any new accounting standards	✓	✓	–
5. Accounts production: review the accounts production process	✓	✓	✓
6. Testing: test and confirm material or significant balances and disclosures	–	✓	✓
7. Representations and opinions: seek and provide representations before issuing our opinions	✓	✓	✓

We have completed the first six stages and report our key findings below:

1. Business understanding	In our 2017/18 audit plan we assessed your operations to identify significant issues that might have a financial statements consequence. We confirmed this risk assessment as part of our audit work. We provide an update on each of the risks identified later in this section. We note that since we issued our planning document guidance has been issued by the NAO in relation to the accounting for LOBO loans, with inverse floater (or similar terms). We have include this as a new area of audit focus, see page 13 .
2. Assessment of the control environment	We assessed the effectiveness of your key financial system controls that prevent and detect material fraud and error. We found that the financial controls on which we seek to place reliance are operating effectively. We have made four new recommendations which are shown in appendix 1. We believe that these recommendations will strengthen your control environment. We reviewed work undertaken by your internal auditors, in accordance with ISA 610 and used the findings to inform our work. We have chosen not to place reliance on their work due to the approach we adopted for the financial statements audit.
3. Prepared by client request (PBC)	We produced the PBC to summarise the working papers and evidence we ask you to collate as part of the preparation of the financial statements. We discussed and tailored our request with officers and this was issued as a final document to the finance team. We are pleased to report that this has resulted in improved working papers being provided.

Financial statements audit

4. Accounting standards	We work with you to understand changes to accounting standards and other technical issues. For 2017/18 these changes were minor but included: • Updates to clarify the reporting requirements for accounting policies and going concern reporting; • The introduction of key reporting principles for the Narrative Report; and • Changes in the Pension Fund accounts to require a new disclosure of investment management transaction costs and clarification on the approach to investment concentration disclosure.
5. Accounts Production	The Council produced their draft accounts by 31 May 2018 in accordance with the deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18. The Authority incorporated measures into its closedown plan to manage this complex process. The Authority recognised the additional pressures which the earlier closedown brought and we engaged with officers in the period leading up to year end to proactively address issues as they emerge. We consider that the overall process for the preparation of your financial statements is adequate. We thank Finance for their cooperation throughout the visit which allowed the audit to progress and complete within the allocated timeframe.
6. Testing	We have summarised the findings from our testing of significant risks and areas of judgement in the financial statements on the following pages. We have identified presentational changes to the accounts along with audit adjustments, mainly relating to Property, Plant and Equipment which we have presented in appendix 2.
7. Representations	You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Chief Finance Officer on 19 July 2018. We draw attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We are asking for specific representations confirming that there have been no variations made to the PFI contracts.

Financial statements audit

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

— Significant difficulties encountered during the audit;

— Significant matters arising from the audit that were discussed, or subject to correspondence with Management;

— Other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and

— Matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, opening balances, public interest reporting, questions/objections, etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2017/18 financial statements.

To ensure that we provide a comprehensive summary of our work, we have over the next pages set out:

- The results of the procedures we performed over the valuation of land and buildings, net pension liability and faster close which were identified as significant risks for the Authority within our audit plan;
- The results of the procedures we performed over the faster close, which was included in our audit plan as an area of audit focus, and accounting for LOBO loans, which became an area of audit focus during the year;
- The results of the procedures we performed over the valuation of hard to price investments which were identified as significant risks to the Pension Fund within our audit plan;
- The results of our procedures to review the required risks of the fraudulent risk of revenue recognition and management override of control; and
- Our view of the level of prudence applied to key balances in the financial statements.

Financial statements audit

Authority significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of land and buildings The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees land and buildings revalued over a five year cycle unless it is thought that the value may have changed materially where they are revalued more frequently, for example the Civic Centre. As a result individual assets may not be revalued for four years. This creates a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value.	Council dwellings £657 million (16/17 £651 million) Other Land and Buildings £711 million (16/17 £639 million)	We reviewed the valuations completed by your valuer and the judgements made by the Authority in response to the information received from their valuers to ensure they had been correctly accounted for in the financial statements. Our valuer reviewed the assumptions used in the valuations to consider whether they were reasonable and in line with industry standards. We also considered the qualifications and independence of your valuer. We reviewed the overall approach to ensuring valuations were not materially misstated, which included consideration of the indexation rates used for Council dwelling and other land and buildings. We reviewed a sample of additions to confirm that they were appropriate to capitalise, and had been capitalised at the correct value, and reviewed a sample of disposals to ensure they had been correctly removed from the financial statements. We identified the following: • The Social Discount Factor for Council dwellings had not been taken account of in relation to £30 million of additions. The resulted in an adjustment being required reducing the value of Council dwellings by £22.5 million; and • The Fixed Asset Register included properties worth £2.4 million that had been transferred to I4B Holdings Limited. In addition, the electronic Fixed Asset Register could not be used to uplift values for indexation and the Authority resorted to using an excel spreadsheet. While this did not impact on the final figures, the Authority needs to identify a solution to this issue to ensure the year end process is efficient and minimise the risk of errors occurring through the use of manual work arounds.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Pension assets and liabilities The Authority is an admitted body of the London Borough of Brent Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018. Valuation of the Local Government Pension Scheme relies on assumptions, most notably actuarial assumptions, and actuarial methodology which results in the Authority's overall valuation. There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. Assumptions should reflect the profile of the Authority's employees and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes. There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to net pension liability accounted for in the financial statements.	Pension assets £709 million (16/17 £674 million) Pension liabilities £1,551 million (16/17 £1,493 million)	We reviewed the controls that the Authority have in place over the information sent directly to the Scheme Actuary and agreed this to supporting evidence. We evaluate the competency, objectivity and independence of your actuary to determine whether we could place reliance on the valuations provided to the Authority. We considered the assumptions used in the valuation and compared them to the expectations of our expert.. In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. As part of our audit of the Pension Fund we gained assurance over the overall value of fund assets and understand how these assets are allocated across participating bodies and re-performed this allocation In addition, we reviewed the overall actuarial valuation and considered the disclosure implications in the financial statements. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 17. There are no issues we need to bring to your attention.

Financial statements audit

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Faster close In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July. In 2016/17, the Authority started to prepare for these revised deadlines and advanced its own accounts production timetable so that draft accounts were ready by 19 June 2017 although they were not signed until 29 September 2017. Whilst this was an advancement on the timetable applied in preceding years, further work was still required in order to ensure that the statutory deadlines for 2017/18 were met.	All balances	We liaised with officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work. The Authority produced their draft accounts by 31 May 2018 in accordance with the deadline. The quality of this draft was consistent with that of prior years with a similar number of audit adjustments identified.

Financial statements audit

Authority other areas of audit focus

Those risks with less likelihood of giving rise to a material error but which are nevertheless worthy of audit understanding.

Other areas of audit focus	Account balances effected	Summary of findings
Group accounts The Authority brought the management of its housing stock back in house from its subsidiary Brent Housing Partnership (BHP) Limited in October 2017 but properties continue to be held in the company, which has changed its name to First Wave Housing Limited. In addition, a new housing subsidiary company, I4B Holdings Limited, that was created in 2016/17 is now expected to hold material assets at the year end and require consolidation into the group accounts. Given the accelerated audit deadline that the subsidiaries will also need to comply with, the mid year transfer of staff from BHP to the Authority and a new company preparing accounts for the first time, there a risk that inter-company balances and transactions may not be removed from the consolidation and that costs and income may be either double counted or omitted.	Group accounts	We have agreed figures used to compile the group accounts back to individual company accounts. For First Wave Housing Limited we are expecting to place reliance on the work completed by their auditors PwC. We have written to PwC with our group instructions setting out our materiality, timetable and asking them to confirm their independence. We have agreed the unaudited accounts to the figures included in the group accounts and are currently waiting for the audited accounts which are expected to be signed on 18 July 2018. We will also review First Wave Housing Limited ISA 260 to see if any issues have been raised that impacts on our audit. We will provide an update on the position at the Audit Committee meeting. For I4B Holdings Limited, which holds approximately £46 million of assets at the year end, we have agreed their unaudited accounts to the figures included in the group accounts. As auditors of I4B Holdings Limited we have tested the material balances such as Property, Plant and Equipment and the loan from the Council to give ourselves assurance the group accounts are not materially mis-stated. As part of our work on the group accounts we identified: • The soft loan between the Council and I4B Holdings Limited had been accounted for in different ways when it should be accounted for on a consistent basis in both entities; and • The profit on the disposal of properties sold to I4B Holdings Limited during the year had not been removed. The Authority is adjusting the group accounts for these audit differences.

Financial statements audit

Other areas of audit focus	Account balances effected	Summary of findings
Accounting for LOBO loans Since we issued our planning document guidance has been issued by the NAO in relation to the accounting for LOBO loans, with inverse floater (or similar terms). The Authority has considered the impact of this guidance, which anticipates that the embedded derivative within such loans will be separated out and fair valued.	Long term borrowing £414 million (16/17 £410 million)	The Authority has LOBO loans of £80.5 million including one of £10 million which is known as an inverse floater, where the interest rate payable by the Authority decreases as interest rates increase. Following the NAO's guidance the Authority consulted their treasury expert, Arlingclose, and decided that the correct treatment was to separate out the embedded derivative and value the embedded derivative at fair value. This increased the amount the loan is shown on the balance sheet by £7.3 million with the corresponding entry being to the General Fund. The Authority deemed this was not a material change to include it as a prior year adjustment. We have reviewed the initial advice given to the Authority and considered the independent and expertise of the Authority's treasury adviser to determine whether we could place reliance on them. We have received a detailed paper setting out all the considerations made which we are currently reviewing but from the evidence seen to date and considering the NAO guidance, the proposed accounting treatment would be appropriate. We also considered the potential impact on previous years to determine whether a prior year adjustment was required and concluded that given the amounts involved accounting for it in this years accounts was appropriate.

Financial statements audit

Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

SIGNIFICANT audit risk	Account balances effected	Summary of findings
Valuation of hard to price investments The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation.	Investments – private equity/infrastructure £98 million (16/17 £130 million)	For year ended 31 March 2018, £98 million out of a total of £830 million of investments, or 12%, were in the harder to price category. As part of our audit of the Pension Fund, we directly confirmed the valuation of these investments to the valuations provided by the Fund Managers. For those unquoted investments that were based on unaudited accounts, we compared the changes between the unaudited and audited account of the previous period – to confirm the recent history of the accuracy of unaudited accounts and assess the appropriateness of the reliance placed on unaudited accounts. We also reviewed movements in the year to confirm there were not any unexpected changes. There are no matters that we need to report to you.

Financial statements audit

Risks that ISAs require us to assess in all cases	Why	Our findings from the audit
Fraud risk from revenue recognition **Authority & Pension Fund**	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We do not consider this to be a significant risk for local authorities as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.	We did not complete any specific additional tests in addition to our normal testing approach on revenue as we rebutted the risk of fraudulent revenue recognition. There are no matters arising from this work that we need to bring to your attention.
Fraud risk from management override of controls **Authority & Pension Fund**	Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. We have not identified any specific additional risks of management override relating to this audit.	Our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud were identified. We have performed specific procedures to: • review accounting judgements which are impacting the reported outturn position; • review of controls associated with, and undertaken, sample testing of manual journals; • reconciled the year end performance to in year financial report to ensure that divergence in performance can be understood and justified; and • reviewed the year end cut off process to ensure that revenue and expenditure items have been reflected within the correct period. There are no matters arising from this work that we need to bring to your attention.

Financial statements audit

Judgements in your financial statements

We consider the level of prudence in key judgements in your financial statements. We summarise our view below using the following scale:

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Provisions	3	3	£22 million *(16/17: £22 million)*	We consider the provisions to be proportionate. Business rates appeals have increased by approximately £1.5 million due to the Authority providing for NHS hospitals which may be able to claim reliefs with minor reductions in other provisions. Overall provisions are in line with our expectations and are balanced.
Short term creditors including accruals	3	3	£120 million *(16/17: £107 million)*	Our testing on creditors and accruals have found them to be balanced
Debtors	3	3	£109 million *(16/17: £90 million)*	Debtors consist of gross debtors of £170 million (2016:17 £143 million) with provision for impairment made of £61 million (2016/17: £53 million). The main categories of impairments are for overpaid housing benefits, business rates and Council Tax. We consider the provisions to be appropriate.
Net pensions liability	3	3	£841 million *(16/17: £818 million)*	The Authority uses Hymans Robertson as an actuarial expert to assist them in calculating the pension asset and liability values. We reviewed the discount rate, inflation, discount rate, salary growth and life expectancy rates used by the Authority and these are in line with the range expected.

Financial statements audit

Assessment of subjective areas				
Asset / liability class	**Current year**	**Prior year**	**Balance (£m)**	**KPMG comment**
Property, Plant and Equipment – other land and buildings (valuations / asset lives)	3	3	£712 million *(16/17: £638 million)*	The Authority uses external valuers to revalue other land and buildings and has followed the valuation and asset lives supplied by the valuers. In addition, indices were used for assets not valued at 31 March 2018 to ensure they are not materially mis stated. We reviewed the instructions provided and deem that the valuation exercise was completed in line with the instructions provided and that the indices used by the Authority were reasonable through working with our KPMG expert. Our view is that the Authority has taken a balanced approach.
Property, Plant and Equipment – Council dwellings (valuations)	2	3	£657 million *(16/17: £651 million)*	A full revaluation of Council dwellings was undertaken on 1 April 2016 and this was adjusted to take account of movements in house prices in Brent during the financial year to 31 March 2017 using the HM Land Registry UK House Price Index. This year the Authority used their external property experts to determine the appropriate change in value of Council dwellings in Brent who determined it was 0.5%. The Authority decided that effectively this materially meant there was no movement and did not increase the value for the year. We noted earlier in the report some adjustments which we identified through our work. After adjustment our view is that the Authority has taken a slightly cautious approach.

Financial statements audit

Group audit

To gain assurance over the Authority's group accounts, we placed reliance on the work completed by the auditors on the financial statements of the Authority's subsidiaries:

— First Wave Housing Limited – auditors PWC; and

— I4B holdings Limited – auditors KPMG.

We have commented on the detail of the group consolidation on page 12.

There were no issues to note in relation to the consolidation process.

Narrative Report and Annual Governance Statement of the Authority

We have reviewed the Authority's narrative report and Annual Governance Statement and have confirmed that they are consistent with the financial statements and our understanding of the Authority. We made a few suggestions to the Narrative Report to make it more in line with the Code of Audit Practice guidance which was updated by officers. Officers are to revisit the Narrative Report to ensure there is the right balance between being easy for the public to read and what the Code suggests should be included.

Pension fund audit

The audit of the pension fund and the Pension Fund Annual Report was completed alongside the main audit. There are no specific matters to bring to your attention relating to this.

Pension fund annual report

We reviewed the consistency of the Fund's financial statements in the Fund's Annual Report and the financial statements included in Brent Council's financial statements. We confirm that the Fund's financial statements are consistent with the pension fund financial statements included in the accounts of Brent Council. We read the information in the Fund's Annual Report to identify material inconsistencies with the Fund's financial statements. We can confirm it is not inconsistent with the financial information contained in the audited financial statements. As such we anticipate issuing an unqualified consistency opinion on the pension fund financial statements.

Queries from local electors

We did not receive any questions or objections from members of the public this year. There remains an objection outstanding from 2015/16.

Financial statements audit

Audit certificate

In order for us to issue an audit certificate, we are required to have completed all our responsibilities relating to the financial year. We are not in a position to issue our audit certificate with the audit opinion as:

— HM Treasury has recently issued its guidance for completing the WGA and issued the consolidation packs that authorities need to complete. The deadline for the Authority to prepare the consolidation pack was 15 June 2018 with an audit deadline of 31 August 2018. We aim to complete the work in August 2018.

— There is an outstanding objection in relation to the 2015/16 audit year where we are anticipating issuing our provisional view in August 2018.

If we do not receive any further observations to our provisional view we expect to issue our audit certificate in September/October 2018 following completion of the above.

Whole of Government Accounts (WGA)

We are awaiting receipt of your WGA consolidation pack.

Other grants and claims work

We also undertake the audit of the Housing Subsidy Benefit Claim, Teachers' Pension Return and the Pooling of Housing Capital Receipts Grant. These have not yet been started and the deadlines are 30 November 2018. We will issue a separate report in December 2018 summarising the findings from this work.

Audit fees

Our fee for the Authority's audit was £199,590 excluding VAT (£199,590 excluding VAT in 2016-17) and for the Pension Fund £21,000 excluding VAT (£21,000 excluding VAT in 2016-17. This fee was in line with that highlighted in our audit plan approved by the Audit Committee in January 2018.

In addition we completed the work required on five objections relating to the 2015/16 financial statements and agreed a fee with the Authority, that was agreed by PSAA of £17,574.

Our work on the certification of Housing Benefits (BEN01) which is under the PSAA arrangements is planned to start in August 2018. The planned scale fee for this is £21,633 excluding VAT (£22,115 excluding VAT in 2016-17). Planned fees for other grants and claims which do not fall under the PSAA arrangements is £6,500 excluding VAT (£6,500 excluding VAT in 2016-17).

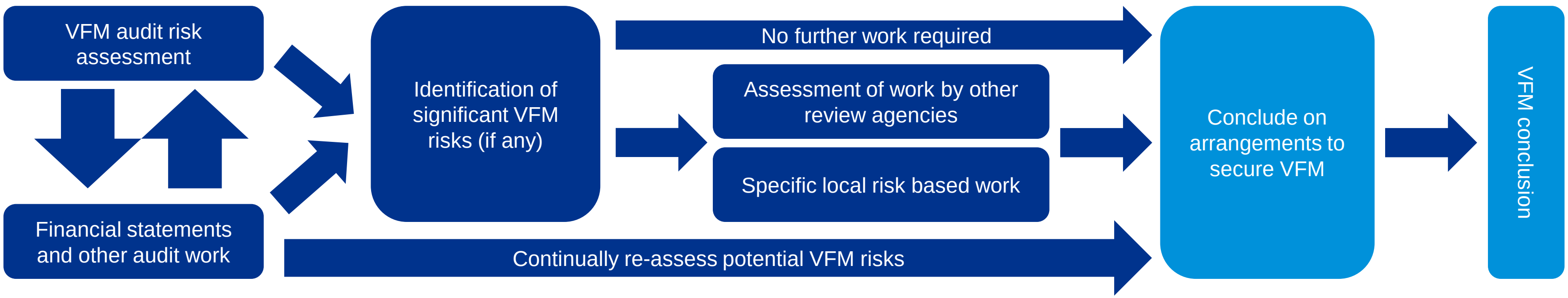
We have not performed any non-audit work outside of that already disclosed to you as part of our audit planning.

Value for money

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

We follow a risk based approach to target audit effort on the areas of greatest audit risk as summarised below:



We did not identify any significant VFM risks and provide a summary overleaf of the other areas of audit focus arising from our VFM work. We are satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2018, based upon the criteria of informed decision making, sustainable resource deployment and working with partners and third parties.

Value for money

Other areas of audit focus

Below we set out the detailed findings against other areas of audit focus for our VFM work.

VFM: other area of audit focus	Our audit response and findings
Delivery of budgets	The Authority's outturn for 2017/18, which required £19.8 million of savings to be delivered, showed that it was £0.1 million overspent on a budget of £254 million. Individual Directorates also performed close to budget with Community Wellbeing showing a £0.9 million overspend and regeneration a £1.0 million underspend . The outturn is managed throughout the year with individual Directorates taking ownership of their budgets and managing any cost pressures initially within their Directorates. Cabinet is kept informed of the in year position with reports received in July, November and December 2017. The Authority takes a long term approach to financial planning ensuring that savings required are identified in advance. For 2018/19, savings of approximately £12 million had been identified and agreed in the medium term financial plan in February 2017. This helped a balanced budget be set with the Authority also increasing Council Tax by 4.99% Given the elections in May 2018, when the 2018/19 budget was approved, Cabinet were aware that £30 million of savings was required in 2019/20 and 2020/21 but did not have individual schemes presented to them to approve this year. The new Cabinet received details of the approach for developing the 209/20 budget and new medium term financial plan in July 2018. Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services. There are new risks and opportunities, for instance the Authority participating in the London Business Rates Pilot Pool where it has been identified it could be £4.9 million beneficial to the Authority although as it is new, this will need to be monitored closely
Contract monitoring	The Authority continues to work closely with partners and third parties and having gone through competitive tendering processes in line with the Authority's regulations, it is vital that contract terms and agreed performance indicators are monitored closely to ensure that the Authority obtains maximum value for money from these contracts. We selected two of the larger contracts with SERCO and Veolia and reviewed the ongoing monitoring arrangements. The SERCO contract for parking services started in March 2013 and was extended for a further five years following an options report to Cabinet in December 2017. A monthly performance report is produced by SERCO followed by a meeting to discuss the key performance Indicators. Invoices raised by SERCO are supported by detailed schedules with explanations for movements from forecasts and deductions where performance indicators are not achieved and these are checked by officers. A risk register for the contract is also maintained by the service. The Veolia contract commenced in April 2014 and is for an initial seven years and covers waste collection, street cleansing, waste management, grounds maintenance, cemeteries, recycling and commercial waste. This contract includes four key targets and 65 other performance indicators and Veolia produce a monthly report on its performance against the indicators. There are three types of regular meetings in place: weekly to cover operational matters; monthly to review the performance report and discuss any issues arising; and then a quarterly strategic meeting for developments going forward. Key indicators form part of the quarterly performance indictor report to Cabinet. Overall the Authority has appropriate arrangements in place to manage and monitor the contract.

Appendix 1

Recommendations raised and followed up

Recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
1	2	Fixed Asset Register (FAR) The FAR could not be used to index individual assets and needed to be downloaded onto an excel spreadsheet to incorporate indexation adjustments. We identified other aspects of the FAR control environment that could be strengthen; • There were assets included in the register that had been sold to I4B Holdings Limited; • There were assets included in Assets Under Construction when they were in use; • Assets included in Other and Buildings that should have been classified as Council dwellings • Assets with values that had estimated useful lives of 0; and • Assets sold being written down to nominal values rather than written out of the register. We recommend that an individual is tasked with identifying a solution for the year end accounting updates and takes full ownership of the FAR, ensuring it is kept up to date and fields with the FAR used accurately.	

Appendix 1

Recommendations raised and followed up

#	Risk	Recommendation	Management Response / Officer / Due Date
Financial statements			
2	2	Journals The Authority uses a module of the Oracle system where journals can be self reviewed, which some staff do, and there is no regular review in place that checks that any self reviewed journals are appropriate. We recommend that if the Authority continues to allow staff to self review journals, these are reviewed on a monthly basis by senior management to ensure that they are appropriate.	
3	2	Accounts preparation of the Pension Fund The Authority does not put through the general ledger all the entries relating to increases in market value of investments but uses the Custodian report as the basis for preparing the asset values included in the accounts. Not using a full trial balance to prepare the accounts can lead to an enhanced risk that errors may occur. We identified two errors relating to assets in the accounts: • One where the incorrect bank balance figure was given to the custodian; and • One where the custodian did not use the final year end report from a Fund manager. We recommend that the Authority puts journals through the general ledger for all entries in the Pension Fund accounts and reconciles reports from Fund Managers to the Custodian report.	
4	3	Year end bank reconciliations The Authority has a number of monthly controls relating to the bank account reconciliations which are undertaken by different staff. Whereas these controls were designed to operate at a month end when cut off isn't as important as at year end, we identified items that had been incorrectly recorded in the wrong year where if there was one person with a high level overview of all of the reconciliations, this might have been identified. We recommend that additional controls or review process is introduced at the year end to ensure that cash is accounted for in the correct period.	

Appendix 1

Recommendations raised and followed up

We have followed up our recommendation from the prior year's audit.

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
1	1	0

#	Risk	Recommendation	Management Response / Officer / Due Date	Status at July 2018
Financial statements				
1	2	Pension details The initial detailed information provided by the Authority to the actuary relating to members of the pension scheme as part of the Pension Fund triennial valuation contained various errors that meant the valuation results were delayed. The errors were resolved but the Authority should put in place arrangements to ensure that accurate pension data is available to supply to actuaries and individual members when required.	The Authority accepts that there were errors in the initial information provided to the Actuary although that these were subsequently resolved. Following the valuation a review took place between April and May 2017 between the Council's in house pension administration service, the external contractor responsible for the data and the actuary to ensure lessons were learned and appropriate actions agreed. This includes measures to ensure data cleansing on a more regular basis to prevent errors.	Implemented The Authority has put in place monthly meetings with the external contractor who manages the pension administration system to discuss quality and any issues arising.

Materiality and reporting of audit differences

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects:

- Material errors by **value** are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements;
- Errors which are material by **nature** may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff; and
- Errors that are material by **context** are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2017/18, presented to you in January 2018.

Materiality for the Authority's accounts was set at £12 million which equates to around 1.1% of gross expenditure.

Materiality for the Pension Fund was set at £12million which equates to around 1.5% of gross assets.

We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to Audit 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 Committee any misstatements of lesser amounts to the extent that these are identified by our audit work. Under *ISA 260*, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. *ISA 260* defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. *ISA 450* requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £600,000 for the Authority and less than £600,000 for the Pension Fund.

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

Appendix 3

Audit differences

Unadjusted audit differences

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £600,000 are shown below.

Authority unadjusted audit differences (£'m)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1						
2						

Pension fund unadjusted audit differences (£'m)

#	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Comments
1						
2						

Appendix 3

Audit differences

Adjusted audit differences

To assist the Audit Committee in fulfilling its governance responsibilities we present in the tables below a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Authority adjusted audit differences (£'m)						
#	**Income and expenditure statement**	**Movement in reserves statement**	**Assets**	**Liabilities**	**Reserves**	**Comments**
1			Cr Cash £2.1	Dr Creditors £1.4	Dr School reserves £0.7	Monies included in cash which belonged to academy schools and items shown in the bank reconciliation that were not allocated against creditors.
2	Dr Cost of sales £22.1	Cr Charges for impairments £22.1	Cr Council dwellings £22.1		Dr CAA £22.1	Council dwelling additions that did not have the Social discount factor applied to their valuation
3	Cr Cost of sales £1.8	Dr Charges for impairments £1.8	Cr Council dwellings £0.6 Dr Investments £0.8 Dr Long term loan £1.6		Cr CAA £1.8	Property belonging to I4B Holdings Limited included in Council dwellings
4			Dr Finance lease debtor £TBA		Cr Deferred capital receipts £TBA	Reclassification of leases from operating to finance leases
5	Dr Cost of sales £7.5	Cr Charges for impairments £7.5	Dr Council dwellings £2.5 Cr Other Land and Buildings £10		Dr CAA £7.5	Council dwellings identified within Other Land and Buildings additions
	Dr 27.9	**Cr 27.9**	**Cr 29.9**	**Dr 1.4**	**Dr 28.5**	**Total impact of corrected audit differences**

Appendix 3

Audit differences

Pension fund adjusted audit differences (£'m)					
#	**Income and expenditure statement**	**Assets**	**Liabilities**	**Reserves**	**Comments**
1	Cr Change in market value of investments £1.0	Dr Investment assets £1.0			The Custodian and Authority did not use the final Fund manager report from Baille Gifford resulting in a £4m difference. In addition, the Custodian was informed that a bank balance that was showing £1.5m overdraft had a credit balance of £1.5m.
	Cr £1.0	**Dr £1.0**	**-**	**-**	**Total impact of corrected audit differences**

Audit differences

Presentational adjustments – Authority

We identified presentational adjustments required to ensure that the Authority's financial statements for the year ending 31 March 2018 are fully compliant with the Code of Practice on Local Authority Accounting in the United Kingdom 2017-18 ('the Code'). Whilst the majority of these adjustments were not significant, we identified a number of adjustments of a more significant nature and details of these are provided in the following table. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Authority	
#	**Basis of audit difference**
1	A reallocation of £5.7 million within note 1 the fixed note between depreciation and other revaluations.
2	Reclassification of £0.7 million of Assets Under Construction to Other Land and Buildings
3	Operating leases rentals due were decreased by £TBA million
4	Collection Fund adjustment of £1.2 million due to previous years balances being incorrectly recorded on returns to Central Government

Presentational adjustments – Pension Fund

We identified presentational adjustments required to ensure that Pension Fund's financial statements for the year ending 31 March 2018 are fully compliant with the Code. The following table sets out those presentation adjustments relating to the Pension Fund's financial statements that are considered to be significant. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

Presentational adjustments – Pension Fund	
#	**Basis of audit difference**
1	A number of additional disclosures were added including around fair value so that the accounts were in line with the Code requirements.

Appendix 4

Audit independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF LONDON BOROUGH OF BRENT AND PENSION FUND

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: general procedures to safeguard independence and objectivity; breaches of applicable ethical standards; independence and objectivity considerations relating to the provision of non-audit services; and independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: instilling professional values; communications; internal accountability; risk management; and independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Appendix 4

Audit independence

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority and its controlled entities for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority and its controlled entities for significant professional services provided by us during the reporting period in Appendix [7], as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 **£**	**2016-17** **£**
Audit of the Authority	199,,590	199,590
Audit fee in respect of objections relating to 2015/16	17,574	-
Audit of the Pension Fund	21,000	21,000
Audit of controlled entities – I4B Holdings Limited	24,000	-
Total audit services	**262,164**	**220,590**
Allowable non-audit services	-	10,000
Audit related assurance services	6,500	6,500
Mandatory assurance services	21,663	22,115
Total Non Audit Services	**28,163**	**38,615**

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.15:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the table below:

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Allowable non-audit services				
None				
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats.	Fixed Fee	6,500	6,500
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats.	Fixed Fee	22,115	21,663

We have not been required to obtain approvals from PSAA for non-audit services as we did not exceed the relevant thresholds during the reporting period.

Contingent fees

We have not agreed any contingent fees with the Authority.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of Andrew Sayers and the audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

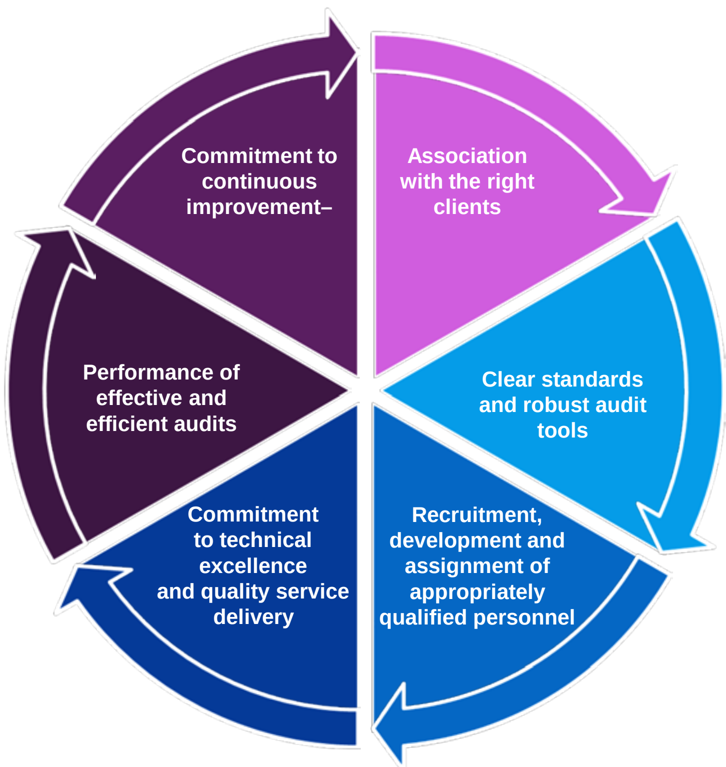
We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

Appendix 5

Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework



- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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