



Annual Audit Letter 2017/18

London Borough of Brent

August 2018

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This report is addressed to 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. Public Sector Audit Appointments 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 Public Sector Audit Appointment'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 Neil Thomas, 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 (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 3HZ.

This Annual Audit Letter summarises the outcome from our audit work at the London Borough of Brent in relation to the 2017/18 audit year, which is the final year that KPMG is the auditor of the Authority and its pension fund.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority's website.

Audit opinion

We issued an unqualified audit opinion on the Authority's financial statements on 31 July 2018. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year. The unqualified audit opinion covered the financial statements of the pension fund.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority's financial statements was set at £12 million which equates to around 1.1 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision. Materiality for the Pension Fund was set at £12 million which is approximately 1.5 percent of gross assets.

We report to the Audit Committee any misstatements of lesser amounts, other than those that are "clearly trivial", to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £0.6 million for the Authority and £0.6 million for the Pension Fund.

We identified one non adjusted audit difference of £5.1 million in the Authority's financial statements relating to the National Non Domestic Rates (NNDR) appeals provision, which was classified in long term provisions when a proportion should have been classified as short term provisions. This does not have any impact on the comprehensive income and expenditure account or net assets of the Authority as it only effects the split between short and long term provisions.

In addition, there were six adjusted audit differences to the Authority's financial statements, four of which related to Property, Plant and Equipment (PPE). The overall impact of the adjustments was to decrease the technical accounting value placed on the net assets of the Authority by £26.8 million, although there was no overall impact on the comprehensive income and expenditure account or usable reserves.

Our audit work was designed to specifically address the following significant risks:

- Management Override of Controls – our audit work included detailed testing on journals and estimates made by management;
- Valuation of PPE – our audit work included engaging our KPMG valuation specialist to review the assumptions and valuations made by the Authority's valuer in revaluing assets and checking additions and disposals were correctly recorded and accounted for: We identified four audit adjustments relating to PPE, the most significant being that the Social Discount Factor for Council dwellings had not been taken account of in relation to £30 million of additions. This resulted in an adjustment which reduced the value of Council dwellings by £22.5 million. We also made a recommendation in relation to strengthening controls around the fixed asset register.

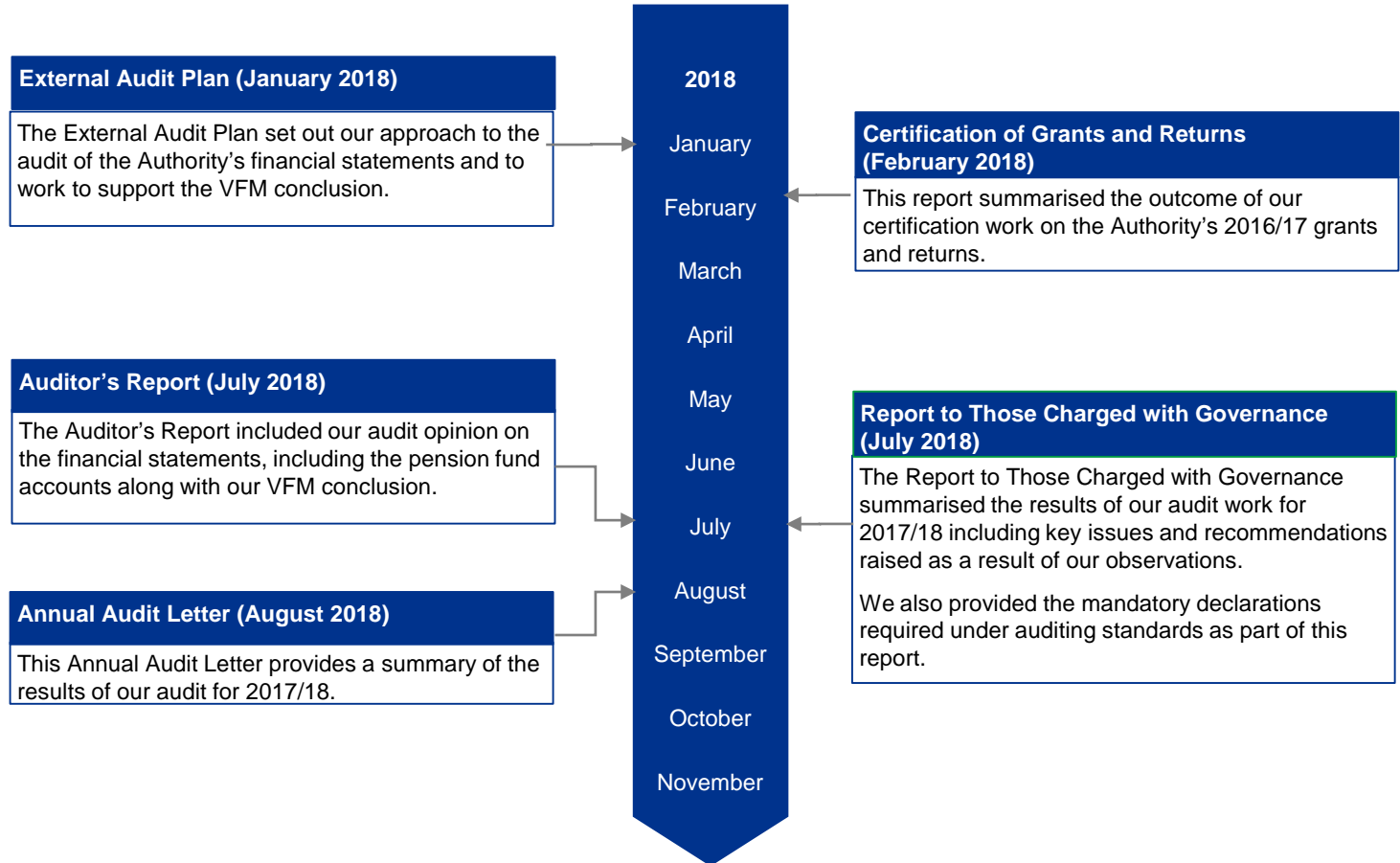
<p>Financial statements audit (Continued)</p>	<ul style="list-style-type: none"> — Pensions Assets and Liabilities – our audit work included considering the assumptions used for key estimates such as discount rates, inflation and salary increases against those provided by our specialist and reviewing the information provided by the Authority to the actuary; and — Fast Closure - the revised deadlines for submission of draft and signed financial statements was brought forwards to 31 May 2018 and 31 July 2018 respectively. We worked closely with officers in preparation for this, which included advancing some audit work into the interim visit, to help ensure these deadlines were achieved. <p>Other than the comments above on PPE, there were no significant issues arising from our work in these areas.</p>
<p>Other information accompanying the financial statements</p>	<p>Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were materially consistent with our understanding and did not identify any issues.</p>
<p>Pension Fund audit</p>	<p>There were no significant issues arising from our audit of the pension fund and we issued an unqualified opinion on the pension fund financial statements as part of our audit report. There was one audit adjustment which reduced investments by £1.0 million.</p> <p>We identified the following significant risks:</p> <ul style="list-style-type: none"> — Management Override of Controls – our audit work included detailed testing on journals and estimates made by management; — Valuation of unquoted investments – our audit work included directly confirming the valuation of these investments included with the pension fund financial statements to the valuations provided by the Fund Managers, reviewing Fund Managers latest ISAE 3405 controls reports and where the valuations are based on unaudited accounts, comparing the changes between the unaudited and audited accounts of the previous period to confirm the recent history of the accuracy of unaudited accounts. we also reviewed movements in the year to confirm there were not any unexpected changes. <p>There were no significant issues arising from our work in these areas.</p>
<p>Whole of Government Accounts</p>	<p>We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. Following a number of adjustments, we reported that the Authority’s pack was consistent with the audited financial statements.</p>
<p>Value for Money conclusion</p>	<p>We issued an unqualified conclusion on the Authority’s arrangements to secure value for money (VFM conclusion) for 2017/18 on 31 July 2018. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority’s arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.</p>

<p>Value for Money risk areas</p>	<p>We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks. We identified delivery of budgets and contract monitoring as areas of audit focus.</p> <p>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 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 to be set with the Authority increasing Council Tax by 4.99%. Given that elections were to be held in May 2018 and the 2018/19 budget was approved in February 2018, Cabinet were made aware that £30 million of savings were 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 2019/20 budget and the new medium term financial plan in July 2018 and will need to work with officers to identify and agree savings for 2019/20 onwards.</p> <p>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. We noted both contracts had monthly reports on service performance and key indicators provided by the contractor with meetings with the contractors to discuss these reports. In addition other regular meetings are held for instance to discuss specific operational issues or at a higher level the strategic direction of the contract.</p> <p>There were no significant issues arising from our work in these areas.</p>
<p>High priority recommendations</p>	<p>We raised no high priority recommendations as a result of our 2017/18 work.</p>
<p>Certificate</p>	<p>The audit cannot be formally concluded and an audit certificate issued as we are considering the Authority's response to an electors objection relating to 2015/16 and we have not issued our opinion on the Pension Fund Annual Report. Until we have completed these, 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.</p>
<p>Audit fee</p>	<p>Our fee for 2017/18 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). These were in line with the planned audit fees. Further details are contained in Appendix 2.</p>
<p>Exercising of audit powers</p>	<p>We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.</p> <p>We have not identified any matters that would require us to issue a public interest report.</p>

Appendix 1: Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter.

These reports can be accessed via the Audit Committee pages on the Authority's website at www.brent.gov.uk.



Appendix 2: Audit fees

This appendix provides information on our final fees for the 2017/18 audit.

To ensure transparency about the extent of our fee relationship with the Authority we have summarised below the outturn against the 2017/18 planned audit fee.

External audit

Our final fee for the 2017/18 audit of the Authority was £199,590, which is in line with the planned fee.

Our final fee for the 2017/18 audit of the Pension Fund was in line with the planned fee of £21,000.

Certification of grants and returns

Under our terms of engagement with Public Sector Audit Appointments we undertake prescribed work in order to certify the Authority's housing benefit grant claim. This certification work is ongoing. The planned fee is £21,633 excluding VAT and final fee will be confirmed through our reporting on the outcome of that work in December 2018.

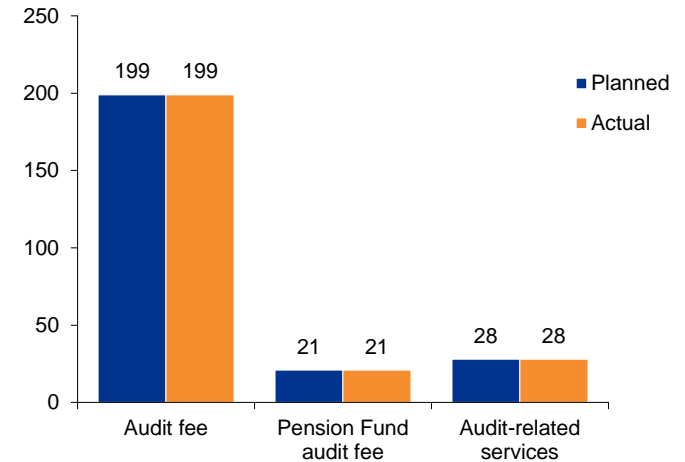
Other services

We have agreed fees of £6,500 for additional audit-related services for the certification of the Teachers Pension Return and the Pooling of Housing Capital Receipts Return, which are outside of Public Sector Audit Appointment's certification regime.

Other fees paid to KPMG during the year

In addition to the above fees for the year, the Authority paid KPMG £17,574 in respect of work completed on five objections relating to the 2015/16 audit year (this does not include fees in respect of ongoing work on the final objection relating to the Lender Only Borrowing Option (LOBO) loans). KPMG also audit the Authority's subsidiary company I4B Holdings Limited for which the audit fee is £24,000 and is being paid directly by the company.

External audit fees 2017/18 (£'000)





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