



# Annual Audit Letter

# Royal Borough of Kensington and Chelsea

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Year ended 31 March 2020  
January 2021



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# Executive Summary

## Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Royal Borough of Kensington and Chelsea Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit and Transparency Committee as those charged with governance in our Audit Findings Report on 17 September 2020.

## Our work

## Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

<b>Materiality</b>	We determined materiality for the Council's financial statements to be £10,000,000, which is approximately 1.3% of the Council's gross cost of services.
<b>Financial Statements opinion</b>	<p>We gave an unqualified opinion on the council's financial statements on 19 November 2020.</p> <p>We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings and Investment properties and the Council's share of the pension fund's pooled property investments as at 31 March 2020, arising from the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>
<b>Whole of Government Accounts (WGA)</b>	We have completed our work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

# Executive Summary

**Value for Money arrangements** We have completed our risk based review of the Council's value for money arrangements. We are unable to issue our conclusion in respect of this work for 2019/20 as the Council's predecessor auditors have not yet issued their value for money conclusion in respect of the 2016/17 and 2017/18 audits (as they are pending the outcome of the Grenfell enquiries), and as a result we have been unable to issue our value for money conclusion for 2018/19. We reflected this in our audit report to the Council on 19 November 2020.

**Certificate** We have completed the majority of work under the Code but are unable to issue our completion certificate until:

- We are able to issue our value for money conclusion, which cannot be issued until the Council's predecessor auditors issue their value for money conclusions in respect of the 2016/17 and 2017/18 audits, and we have subsequently issued our value for money conclusion for 2018/19.
- The Council's predecessor auditors have issued their completion certificates for the 2016/17 and 2017/18 audit years, and we have subsequently issued our completion certificate for 2018/19.

## Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council.

The Council has faced extensive front-line challenges as a result of the pandemic, such as administration of grants to businesses and closure of schools, with additional complexities of reopening services under new government guidelines. The Council has responded well to the challenges caused by the pandemic.

Throughout the closedown period we held regular meetings with the Council's key finance staff to discuss the impact of Covid-19. We also discussed the financial implications in terms of asset valuations, going concern and provision for credit losses in advance of the submission of the financial statements.

There have not been any changes in key financial processes that impacted on our audit approach. Restrictions for non-essential travel have meant both teams have had to be flexible in approaches to sharing information. We agreed to use video calling to watch the finance team run the required reports to gain assurance over the completeness and accuracy of information produced by the Council.

We made more use of conference calls and emails to resolve audit queries. Both teams utilised a query log to track and resolve outstanding items. Weekly meetings were held with senior finance staff to highlight key outstanding issues and findings to date, ensuring that the audit process was as smooth as possible. The audit was completed ahead of the 30 November 2020 revised deadline.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

**Grant Thornton UK LLP**  
January 2021

# Audit of the Financial Statements

## Our audit approach

### Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £10,000,000, which is approximately 1.3% of the Council's gross cost of services. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We set a lower threshold of £500,000, above which we reported errors to the Audit and Transparency Committee in our Audit Findings Report.

### The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

# Audit of the Financial Statements

## Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>Worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements. We reviewed updated financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported as a result of Covid-19 specifically. The draft financial statements were provided on 19 June 2020.</li> <li>Liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert.</li> <li>Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.</li> <li>Evaluated whether sufficient audit evidence could be obtained through remote technology.</li> <li>Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations.</li> <li>Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.</li> <li>Discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>The Council's property valuation specialists reported that valuations of land and buildings were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>In addition, the fund managers for the Pension Fund's pooled property investments declared material valuation uncertainties around the valuation of these investments on the same basis. This impacts upon both the valuation of investments in the Pension Fund net assets statement and the valuation of the net defined benefit liability in the Council's balance sheet.</p> <p>Management have disclosed these uncertainties in Note 3 to the Council's financial statements and Note 4 to the Pension Fund financial statements. These disclosures were referred to in our auditor's reports for the Council and Pension Fund respectively in emphasis of matter paragraphs. These references do not constitute qualifications of the audit opinions.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Council revalued all Property, Plant and Equipment land and buildings, Heritage and Investment assets as at 31 March 2020. This full valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.65 billion covering land and buildings categorised as PPE as well as Investment Properties) and the sensitivity of this estimate to changes in key assumptions.</p> <p>This risk includes the valuation of all heritage assets, council dwellings and investment properties, in addition to land and buildings within 'property, plant and equipment'.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work.</li> <li>• Evaluated the competence, capabilities and objectivity of the valuation expert.</li> <li>• Wrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met.</li> <li>• Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation.</li> <li>• Tested revaluations made during the year to see if they had been input correctly into the Council's asset register.</li> <li>• Assessed the value of a sample of assets in relation to market rates for comparable properties.</li> <li>• Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group.</li> </ul>	<p>As discussed under 'Covid-19' above, the Council's property valuation specialists reported that valuations of land and buildings, including investment properties and council dwellings, were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case. Management have disclosed this uncertainty in Note 3 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.</p> <p>During the audit, significant challenges were encountered in obtaining documentation and explanations from the Council's property valuation specialists. We recommended that the Council should implement an effective process for data sharing with their external valuation specialists to ensure that they are able to adequately challenge the basis of valuations included in the report and gain assurance over the material accuracy of reported figures.</p>

# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of net pension liability</b></p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£83.6 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls.</li> <li>Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work.</li> <li>Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation.</li> <li>Assessed the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud and Guaranteed Minimum Pension cases.</li> <li>Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability.</li> <li>Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary.</li> <li>Undertook 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.</li> <li>Obtained assurances from our audit of the Pension Fund as to the controls surrounding the validity and accuracy of membership data, contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.</li> </ul>	<p>As discussed under 'Covid-19' above, the fund managers for the Pension Fund's pooled property investments reported that valuations of these investments were subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty, and a higher degree of caution, should be placed on the recorded valuation of these assets than would otherwise be the case.</p> <p>As 95% of the Pension Fund's assets are attributable to the Council as the administering authority for the Fund, this material uncertainty impacts in turn upon the valuation of the net defined benefit liability in the Council's balance sheet.</p> <p>Management have disclosed this uncertainty in Note 3 to the financial statements. This disclosure will be referred to in our auditor's report in an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.</p>



# Audit of the Financial Statements

## Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Incomplete or inaccurate financial information transferred to the new business rates system</b></p> <p>In September 2019, the Council implemented a new business rates system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of any data transfer from the previous system.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Mapped the closing balances from the 2018/19 general ledger to the opening balance position in the new ledger for 2019/20 to ensure accuracy and completeness of the financial information.</li> <li>• Sample tested information from the old system to agree to the new system, and from the new system to the old system.</li> <li>• Documented the controls in place around the data transfer, including liaising with Internal Audit to understand their work on this.</li> </ul>	<p>We did not identify any material issues from our work.</p>
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals.</li> <li>• Analysed the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>We did not identify any material issues from our work.</p>

# Audit of the Financial Statements for Pension Fund

## Pension Fund Significant Audit Risks

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation.</li> <li>Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates.</li> <li>For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions.</li> <li>Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>Worked with management to understand the implications the response to the Covid-19 pandemic had on the pension fund's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. The draft financial statements were provided on 30 June 2020.</li> <li>Evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic.</li> <li>Evaluated whether sufficient audit evidence could be obtained through remote technology.</li> <li>Evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as the investment valuations.</li> <li>Evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment.</li> <li>Discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li> </ul>	<p>In respect of pooled property investments, the relevant fund managers reported that the valuation of these investments was subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty and a higher degree of caution, should be placed on the recorded valuation of these assets that would otherwise be the case. Management have disclosed this uncertainty in Note 4 to the Pension Fund financial statements. This disclosure was referred to in our auditor's report as an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.</p>

# Audit of the Financial Statements Pension Fund

## Pension Fund Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of level 3 investments</b></p> <p>The Fund values its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£61 million) and the sensitivity of this estimate to changes in key assumptions</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls.</li> <li>• Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment.</li> <li>• Independently requested year-end confirmations from investment managers and/or custodian(s).</li> <li>• For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period.</li> <li>• In the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert.</li> <li>• Tested revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register.</li> <li>• Where available, reviewed investment manager service auditor report on design effectiveness of internal controls.</li> </ul>	<p>In respect of pooled property investments, the relevant fund managers reported that the valuation of these investments was subject to 'material valuation uncertainty' as at 31 March 2020, as a result of the impact of the Covid-19 pandemic on market activity in the real estate sector, meaning that less certainty and a higher degree of caution, should be placed on the recorded valuation of these assets that would otherwise be the case. Management have disclosed this uncertainty in Note 4 to the Pension Fund financial statements. This disclosure was referred to in our auditor's report as an emphasis of matter paragraph. This does not constitute a qualification of the audit opinion.</p>

# Audit of the Financial Statements Pension Fund

## Pension Fund Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work on the pension fund.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Management override of internal controls</b></p> <p>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.</p> <p>In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> <li>• Evaluated the design effectiveness of management controls over journals.</li> <li>• Analysed the journals listing and determine the criteria for selecting high risk unusual journals.</li> <li>• Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration.</li> <li>• Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence.</li> <li>• Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>	<p>We did not identify any material issues from our work.</p>

# Audit of the Financial Statements

## Audit opinion

We gave an unqualified opinion on the Council's financial statements on 19 November 2020.

## Preparation of the financial statements

The council presented us with draft financial statements on 19 June 2020 in advance of the amended timeframe. A number of adjustments to the financial statements were identified that has resulted in a £5.4m adjustment to the Council's Comprehensive Income and Expenditure Statement.

## Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit and Transparency Committee on 17 September 2020. The key issues were as follows:

- As part of our initial working paper request list for creditors and debtors held by the Council as at 31 March 2020, we requested listings of outstanding balances by counterparty at this date from the various subsystems, reconciled to the general ledger, to enable us to select a sample of outstanding items for testing. Management were unable to produce these listings. This led to delays in completion of the associated audit procedures.
- During our audit of property valuations, significant delays and challenges were encountered with obtaining required data and explanations from the Council's external property valuation specialists.
- During the audit process, management refined their estimation processes for calculating expected credit losses in respect of local taxation debtors and for the provision of National Non Domestic Rates appeals provisions.

## Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. The Council published them on its website in the draft Statement of Accounts in June 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

## Pension fund accounts

We gave an unqualified opinion on the pension fund accounts of Royal Borough of Kensington and Chelsea on 19 November 2020. We also reported the key issues from our audit of the pension fund accounts to the Council's Audit and Transparency Committee on 17 September 2020. The key issues were as follows:

- We identified at the risk assessment stage that management did not prepare annual budgets for the Fund and management accounts to monitor performance during the year.
- The Fund outsources pensions administration functions to Surrey County Council. We identified through reviewing the latest internal audit report for the service at the planning stage that a number of findings had been noted around improvements which were required to data quality held on the Altair pensions administration system.

## Whole of Government Accounts (WGA)

We have completed our work on the Council's Whole of Government Accounts.

## Certificate of closure of the audit

We have completed the majority of work under the Code but are unable to issue our completion certificate until:

- We are able to issue our value for money conclusion, which cannot be issued until the Council's predecessor auditors issue their value for money conclusions in respect of the 2016/17 and 2017/18 audits, and we have subsequently issued our value for money conclusion for 2018/19.
- The Council's predecessor auditors have issued their completion certificates for the 2016/17 and 2017/18 audit years, and we have subsequently issued our completion certificate for 2018/19.

# Value for Money conclusion

## Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

*In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.*

## Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in September 2020, we agreed recommendations to address our findings.

## Overall Value for Money conclusion

We are unable to issue our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources until the Council's predecessor auditors have concluded their audits for 2016/17 and 2017/18, and we have in turn concluded our audit for 2018/19. These audits are pending the outcome of the Grenfell Tower enquiries.

Therefore, as a consequence of ongoing external investigations and inquiries, we have not yet been able to complete the work that we have determined necessary to form a view on whether, in all significant respects, the Royal Borough of Kensington and Chelsea has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Medium Term Financial Planning</b></p> <p>In the context of future funding uncertainty arising from the fairer funding review and longer-term settlement decisions, combined with the reduction of your useable reserves over recent years following response to the Grenfell fire, in Spring 2019 you identified that you would be required to find £40m of savings in the three years to 2022/23 to maintain financial balance.</p> <p>In respect of your budget-setting for 2020/21 and future years, you have implemented a new outcomes-based approach to align budget commitments more closely to your corporate priorities, and this is reflected in your medium term financial plan.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed the Council's in year budget monitoring and outturn reports.</li> <li>• Reviewed the Council's 2020-21 budget.</li> <li>• Reviewed the Council's updated Medium Term Financial Plans.</li> <li>• Reviewed the Council's Covid-19 returns to central government.</li> <li>• Reviewed the Council's Covid-19 recovery plan.</li> <li>• Compared the Council's levels of reserves with other London Boroughs.</li> </ul>	<p>The financial outlook for the Council remains challenging. During 2019/20 and in the period since the year-end, officers have put in place robust arrangements to ensure that risks and uncertainties are given due consideration in short and medium-term financial planning and the impact is effectively modelled to the best of their ability, drawing on external support where knowledge gaps or wider unknowns are identified.</p> <p>The outturn position for 2019/20 is broadly indicative that management's understanding of the key drivers for income and expenditure relating to core services and ability to understand impact of decisions taken is strong, and plans have been put in place for improvement to processes where significant variances were identified.</p> <p>As a result of Government Funding and initiatives, prior year underspends and prudent financial planning including setting aside contingencies in the budget-setting process, the Council has sufficient resources in place to meet the expected shortfalls in income and increases in expenditure for 2020/21 arising from the Covid-19 pandemic and is not facing the kinds of challenging decisions in the immediate term around service cuts or Section 114 notices which comparable local authorities could be subject to.</p> <p>In the medium term, the picture remains far more uncertain as the longer-lasting impact of the pandemic on the economy, in the context of wider financial risks beyond the control of officers or members, remain significant unknowns. Management are conscious of the need to remain responsive to emerging circumstances, whilst keeping sight of longer term strategic goals which underpin future investment decisions from use of reserves.</p>

# Value for Money conclusion

## Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Grenfell fire recovery</b></p> <p>The first phase of the public inquiry into the Grenfell fire, which centred on events on the day of the tragedy, is now complete, with the findings report having been published in October 2019. The inquiry is now moving into its second phase, which focuses on events leading up to the fire, and will involve more detailed input from the Council and former officers along with a wider range of stakeholders.</p> <p>The Council is also entering into the second year of the Grenfell Recovery Strategy, which focuses on the social, economic and environmental issues associated with the recovery and how the Council plans to work with partners to support the communities affected.</p> <p>We will evaluate arrangements in place for continued leadership of the recovery process and working with stakeholders to maintain transparency and trust</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed findings from Phase I of the Grenfell Tower Public Inquiry.</li> <li>• Discussed with senior officers the impact of the current status of the Public Inquiry in light of the Covid-19 pandemic.</li> <li>• Reviewed findings from final report of the Grenfell Independent Task Force.</li> <li>• Reviewed progress against the Grenfell Recovery Strategy.</li> <li>• Reviewed Charter for Public Participation agreed to by the Council with effect from March 2020.</li> </ul>	<p>Due to the continuing uncertainties around the public inquiry and criminal investigation into the Grenfell fire, and as the Council's predecessor auditors have not yet issued their VFM conclusions for 2016/17 and 2017/18, we are not yet able to draw definitive conclusions around the arrangements in place in respect of informed decision making around the Grenfell Fire Recovery and their sufficiency to secure economy, efficiency and effectiveness in the medium term.</p>



# Value for Money conclusion

## Value for Money Risks - continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p><b>Cultural change and transformation</b></p> <p>The Council continues to work to change its organisational culture by embedding the principles of good governance as recommended by the Centre for Public Scrutiny. Alongside this, Council priorities have been redeveloped under the Council Plan and investment decisions have been aligned to these as part of the outcomes-based budgeting programme. Finally, the Council has realigned its directorate structure to better reflect the future service delivery model.</p> <p>We will review the Council's arrangements for implementing cultural change and designing, implementing and monitoring specific programmes for embedding your strategic objectives through transformation and change.</p>	<p>As part of our work we have:</p> <ul style="list-style-type: none"> <li>• Reviewed prior year audit documentation around outcomes-based budgeting and plans for implementing a comprehensive service redesign.</li> <li>• Reviewed the report presented to members on requirement for external support for the Medium Term Financial Strategy.</li> <li>• Reviewed 'Forward 2020' paper on the Council's plans for organisational change.</li> <li>• Reviewed Council's revised Housing Strategy and Social Value Strategy.</li> <li>• Reviewed Covid-19 report presented to members in July 2020.</li> </ul>	<p>The Council remains in a period of significant change with many plans in place for the future. Decision-making processes, governance structures and outcomes have been designed but in the current environment it remains to be seen how successfully these will be implemented. Designing resilient, future-fit service delivery models will be more crucial than ever given the uncertainties which the Council now faces over the medium term and the pressures being faced by local businesses and residents. It will also be essential that the anticipated benefits and desired outcomes from transformation and cultural change are clearly articulated and measurable, to enable the Council to demonstrate success against the plans and identify, and take corrective action, at an early stage should the risks to success become prohibitive.</p> <p>The Council's executive leadership are conscious of this and have to date maintained resources set aside to invest in change and transformation, in spite of the current crisis. We will continue to report on the Council's early stage arrangements as these develop and emerge.</p>

## A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services

### Reports issued

Report	Date issued
Audit Plan	February 2020
Audit Findings Report	September 2020
Annual Audit Letter	January 2021

### Fees

	Scale Fee	Planned Fee £	Actual Fee £
Statutory audit	93,497	122,497	140,872
Audit of Pension Fund	16,170	25,000	28,750
<b>Total fees</b>	<b>109,667</b>	<b>147,497</b>	<b>169,622</b>

### Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional work.

We have been discussing the issue of the 'cost of Covid' with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

Fee variations have been agreed with management, but are subject to PSAA approval.

# A. Reports issued and fees

Fee variation for the Council		
Area	Reason	Fee Agreed
<b>Raising the bar increased challenge and reduction in materiality.</b>	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity. For major audits, we have also reduced the materiality level, reflecting the higher profile of local audit. This will entail increased scoping and sampling.	£7,000
<b>Pensions – IAS 19</b>	We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.	£3,500
<b>PPE Valuation – work of experts</b>	We have engaged our own audit expert – ( Wilks Head and Eve) and increased the volume and scope of our audit work to ensure an adequate level of audit scrutiny and challenge over the assumptions that underpin PPE valuations. We estimate that the cost of the auditors expert will be in the region of £5,000. The 2019/20 year also included detailed work on beacons.	£9,500
<b>Change in Business Rates system</b>	We undertook additional procedures to gain assurance over the completeness and accuracy of the data transfer between systems.	£2,000
<b>New standards /developments and requirements</b>	Additional work will be required for disclosures required in 2019/20 under IAS8	£2,500
<b>Accounting and value for money implications of the Grenfell fire</b>	The financial statements include a number of balances, classes of transactions and disclosures relating to Grenfell fire recovery which require additional audit work. Further, we identified arrangements in place to support the Grenfell Fire Recovery as a significant risk in respect of our Value for Money Conclusion.	£1,500
<b>Data Extraction using Grant Thornton IT specialists</b>	Management are unable to independently provide a transaction level listing from the general ledger for either the interim or final audit visits. As such additional input was required for Grant Thornton's IT specialists.	£3,000
<b>Additional Covid costs 15%</b>	<p>The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> <li>Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan.</li> <li>Management's assumptions and estimates - there is increased uncertainty over many estimates including pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management.</li> <li>Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.</li> <li>Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts, quality of working papers, and delays in responses. These are understandable and arise from the availability of the relevant information and/or the availability of key staff (due to shielding or other additional Covid-19 related demands). In many instances the delays are caused by our inability to sit with an officer to discuss a query or working paper. Gaining an understanding via Teams or phone is more time-consuming.</li> </ul>	£18,375
<b>Total</b>		<b>£47,375</b>

## A. Reports issued and fees continued

### Fee variation for the Pension Fund

Area	Reason	Fee Agreed
<b>Raising the bar increased challenge</b>	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.	£5,000
<b>Valuation of Level 3 Investments</b>	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.	£3,830
<b>Additional Covid costs 15%</b>	<p>The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:</p> <ul style="list-style-type: none"> <li>• Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.</li> <li>• Management's assumptions and estimates - there is increased uncertainty over many estimates including investment valuations. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.</li> <li>• Remote working – the most significant impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working.</li> </ul>	£3,750
<b>Total</b>		£12,580

## A. Reports issued and fees continued

### Fees for non-audit services

Service	Fees £
<b>Audit related services</b>	
- Teachers Pension Return	£7,700
- Pooling of Housing Capital Receipts	TBC
- Housing benefits subsidy claim	TBC
- Adult Learning subcontracting controls assurance	TBC
<b>Non-Audit related services</b>	12,500
- CFO Insights subscription	

### Non- audit services

- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group. The table above summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the group's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the group's policy on the allotment of non-audit work to your auditor.



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