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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report. This draft has been created from the template dated DD MMM YYYY

The Audit Findings for the Royal Borough of Kensington and Chelsea and Kensington and Chelsea Pension Fund

Year ended 31 March 2020

November 2020

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Headlines

This table summarises the key findings and other matters arising from the statutory audits of the Royal Borough of Kensington and Chelsea ('the Council') and Kensington and Chelsea Pension Fund ('the Pension Fund') and the preparation of the Council and Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

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

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

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financial statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum to management in April 2020. This was shared with the Audit and Transparency Committee in the papers for the meeting held on 27 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid -19 and highlighted the impact on our VfM approach. Further detail is set out on page 6.

Restrictions for non-essential travel have meant that Council, Pension Fund and audit staff have undertaken the accounts closedown and audit process remotely making use of remote access to financial systems and video conferencing, including screen sharing to verify information provided by the entity.

The financial statements were published and provided to the audit team on 18 June 2020.

No significant challenges were encountered in interactions between the Council and Pension Fund finance teams and the audit team as a result of remote working although, by its nature, remote working takes significantly longer than auditing onsite. However, difficulties were encountered in obtaining documentation from departments outside of finance as a result of the necessary prioritisation of the front-line Covid-19 response.

Challenges were also faced in obtaining information remotely from the Council's property valuation specialists with the result that, at the time of writing, our audit work in respect of the valuation of land and buildings assets, including Council dwellings and investment properties, remains in its early stages.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council and Pension Fund's financial statements:

- give a true and fair view of the financial position of the Council and Pension Fund and Council and Pension Fund's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS), Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely during July-September . Our findings are summarised on pages 6 to 22. A number of adjustments to the financial statements were identified that have resulted in a £5.4m adjustment to the Council's Comprehensive Income and Expenditure Statement. Non-trivial audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinions (Appendices E and F) or material changes to the financial statements, subject to the outstanding matters outlined on page 5 of this report.

We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation. The financial statements we have audited is up until 31 March 2019 which was prior to the outbreak of the Covid-19 coronavirus pandemic.

Our anticipated audit opinion for the Council will be unmodified. It will include an Emphasis of Matter, highlighting material uncertainties around the valuation of land and buildings, investment properties and pension fund property investments as at 31 March 2020.

Our anticipated audit opinion for the Pension Fund will be unmodified. It will also include an Emphasis of Matter, highlighting material uncertainties around the valuation of property investments as at 31 March 2020.

Headlines

This table summarises the key findings and other matters arising from the statutory audits of the Royal Borough of Kensington and Chelsea (‘the Council’) and Kensington and Chelsea Pension Fund (‘the Pension Fund’) and the preparation of the Council and Pension Fund's financial statements for the year ended 31 March 2020 for those charged with governance.

Value for Money arrangements **(Council only)**	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (‘the value for money (VFM) conclusion’).	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 conclusions in respect of the 2016/17 and 2017/18 audits (as they are pending the outcome of the Grenfell inquiries), and as a result we have been unable to issue our value for money conclusion for 2018/19. Our findings are summarised on pages 23 to 40.
Statutory duties	The Local Audit and Accountability Act 2014 (‘the Act’) also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. 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 • we have completed the required work on the consistency of the pension fund annual report with the audited financial statements • we have completed the procedures required for the Whole of Government Accounts Assurance Statement, which at the date of this report have yet to be confirmed by the NAO.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council and Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Council and Pension Fund's internal controls environments, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to the Audit and Transparency Committee in July 2020, to reflect our response to the Covid-19 pandemic and its impact on the Council and Pension Fund's financial statements and the Council's value for money arrangements.

Conclusion

We have substantially completed our audit of the Council and Pension Fund's financial statements and, subject to outstanding queries being resolved, anticipate issuing unqualified audit opinions by the end of October 2020, as detailed in Appendices E and F. These outstanding items include:

- engagement lead and review partner quality review of audit files and resolution of any arising queries;
- updating our review of events after the reporting date;
- receipt of management representation letters; and
- receipt and review of the final sets of financial statements.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

For the Council, we have revised materiality levels from that reported in our audit plan. This is because gross expenditure for 2019/20 was lower than that recorded during 2018/19.

For the Pension Fund, materiality levels remain the same as reported in our audit plan.

	Council Amount (£'000)	Pension Fund Amount (£'000)
Materiality for the financial statements	10,000	11,000
Performance materiality	7,000	8,250
Trivial matters	500	550

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Covid– 19 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; - 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 - 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 - 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 - 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. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • working with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update 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; • liaison 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 • evaluating the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic; • evaluating of whether sufficient audit evidence could be obtained through remote technology; • evaluating whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations ; • evaluating management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment; • discussion with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. 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. 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. 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 will be 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. No further issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
The revenue cycle includes fraudulent transactions (rebutted)	Council and Pension Fund	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. In our audit plan we reported that having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Council, we had determined that the risk of fraud arising from revenue recognition could be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Royal Borough of Kensington and Chelsea, mean that all forms of fraud are seen as unacceptable Therefore we did not consider this to be a significant risk for the Royal Borough of Kensington and Chelsea or Kensington and Chelsea Pension Fund. Our assessment remains consistent with that reported in our audit plan.
Management override of controls 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. In particular journals, management estimates and transactions outside the course of business are areas susceptible to management override.	Council and Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluation of the design effectiveness of management controls over journals • analysis of the journals listing and determine the criteria for selecting high risk unusual journals • testing unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gaining an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluating the rationale for any changes in accounting policies, estimates or significant unusual transactions. As explained at Appendix B, in the prior year we reported a control finding that supporting working papers for some key accounting estimates, such as expected credit loss allowances and provision for business rates appeals, did not contain inputs which could be supported with robust evidence or documentation. In 2019/20, management refined both of these accounting estimates during the course of the audit leading to adjustments to the core financial statements, as illustrated at Appendix C. We have therefore carried forward this finding to 2020/21, recommending that management ensure accounting estimates are formed on the best available information and that significant inputs and assumptions are clearly documented in advance of the closure of the financial statements. We are satisfied from the audit procedures undertaken that this issue has not led to a material misstatement of the financial statements in 2019/20. No further issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of land and buildings 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. 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'	Council	Audit procedures undertaken in response to the identified risk included: • evaluation of management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluation of the competence, capabilities and objectivity of the valuation expert • writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met • engaging 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. • testing revaluations made during the year to see if they had been input correctly into the Council's asset register • assessing the value of a sample of assets in relation to market rates for comparable properties. • testing 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. During the audit, significant challenges were encountered in obtaining documentation and explanations from the Council's property valuation specialists. This has been reported in Appendix A, where we have recommended that management should implement an effective process for data sharing with their external property valuation specialists to ensure that they are able to adequately challenge the basis for the valuations included in the report and gain assurance over the material accuracy of reported figures. Management should also ensure all data informing management judgements in the accounts is available for audit scrutiny. 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. No further issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of pension fund net liability 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. 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.	Council	Audit procedures undertaken in response to the identified risk included: • updating 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; • evaluation of the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation; • assessment of 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. • assessing the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability; • testing 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; • undertaking 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; and • obtaining 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 Our audit procedures in this area are now complete. 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. 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. 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. No further issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Incomplete or inaccurate financial information transferred to the new business rates system 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.	Council	Audit procedures undertaken in response to the identified risk included: • mapping 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. • sample testing information from the old system to agree to the new system, and from the new system to the old system. • documentation of controls in place around the data transfer, including liaising with Internal Audit to understand their work on this In our Audit Plan, we reported that we also planned to: • Complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new business rates system This procedure was not considered necessary given that within our audit approach, no reliance was placed on the design or operating effectiveness of the controls in place in respect of business rates income or balances, and was therefore not undertaken. Our audit procedures in this area are now complete. No issues have been identified which are required to be reported to those charged with governance.

Significant audit risks

Risks identified in our Audit Plan	Applicable to	Auditor commentary
Valuation of level 3 investments 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. 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 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. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2020.	Pension Fund	Audit procedures undertaken in response to the identified risk included: • evaluation of management's processes for valuing Level 3 investments • reviewing the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently requesting year-end confirmations from investment managers and/or custodian(s) • for a sample of investments, testing 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 and • in the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert • testing revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register • where available, reviewing investment manager service auditor report on design effectiveness of internal controls. Our audit procedures in this area are now complete. No issues have been identified in respect of this risk specifically which are required to be reported to those charged with governance. However, in respect of pooled property investments, which are held at level 2 in the fair value hierarchy, 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 than would otherwise be the case. Management have disclosed this uncertainty in Note 4 to the Pension Fund 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

Significant findings – other issues

This section provides commentary on new issues and risks which were identified during the course of the audit that were not previously communicated in the Audit Plan and a summary of any significant control deficiencies identified during the year.

Issue	Commentary	Auditor view
IFRS 16 implementation has been delayed by one year Although the implementation of IFRS 16 has been delayed to 1 April 2021, audited bodies still need to include disclosure in their 2019/2020 statements to comply with the requirement of IAS 8 para 31. As a minimum, we would expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.	Management disclosed in Note 2 to the financial statements the title, date of initial application and the nature of changes in accounting policy which would arise from IFRS 16 implementation. This disclosure also includes a statement that the Council were unable to reasonably estimate how the standard would impact upon the Council's accounts but that this is not expected to have a material impact. We reviewed management's process for compiling information about leases to ensure completeness and found these to be adequate. The statement that the impact of the revised accounting standard is not expected to be material for the Council is reasonable in the context of the Council's general policy of purchasing rather than leasing assets, and immaterial future operating lease commitments as a lessee disclosed in the financial statements.	For 2020/21, management will need to be in a position to provide a monetary estimate of the impact on assets, liabilities, income, expenditure and reserves of the transition to IFRS 16 to allow for auditor assessment of the adequacy of associated disclosures in the financial statements.
Dedicated Schools Grant The Council had a cumulative overspend against the Dedicated Schools Grant (DSG) of £4.9m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e. it "neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position."	We wrote to management in May 2020 setting out Grant Thornton UK LLP's position on accounting for accumulated DSG deficits in light of CIPFA's Bulletin 05 on closure of the 2019/20 accounts. In our response to the DfE's consultation we disagreed that changing the conditions of the grant would be sufficient in isolation to achieve the Government's intention to require overspends to be carried forward and not charged against general reserves, as this would be at odds with the requirements of proper accounting practice and the Code.	We recommend that management present the accumulated deficit in a positive earmarked schools reserve, offset by sufficient useable funds to demonstrate the Council's ability to meet this deficit from its own resources if required to do so in the future. Discussions remain ongoing within MHCLG as to required accounting treatment for DSG deficits from 2020/21. We will continue to discuss the impact with management. **Management response** Management's view is that it would be unlawful to fund the deficit from the General Fund or other resources without the express permission of the Secretary of State.

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Provisions for NNDR appeals – £23.2m (draft); £19.1m (final)	The Council are responsible for repaying a proportion of successful rateable value appeals. In 2019/20, management used an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information about outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. Due to a reduction in outstanding appeals, the provision in the draft financial statements had decreased by £8.2m in 2019/20. An error was made in management's initial recording of the provision in the draft financial statements, meaning that the provision was initially overstated by £4.1m. Further detail is provided in Appendix C. The final decrease in the provision during 2019/20 was therefore £12.3m.	• We have assessed management's expert, Analyse Local, to be competent, capable and objective. • Analyse local have used up to date data around outstanding appeals and potential information around unlodged appeals and historic success rates to form a reliable estimate of the impact on Rateable Values in the future, and timings based on historic observations. • The methodology used is consistent with comparable local authorities • The disclosure of the estimate in the financial statements was found to be adequate.	● Green
Land and Buildings – Council Housing – £784.3m	The Council owns 6,945 dwellings (6,693 in the Housing Revenue Account and 252 in the General Fund) and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged Jones Lang LaSalle (JLL) to complete the valuation of these properties. The year end valuation of Council Housing was £784.3m, a net increase/decrease of £7.1m from 2018/19 (£777.2m).	• We have assessed management's expert, JLL, to be competent, capable and objective. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by MHCLG, and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All properties have been valued as at 31 March 2020, with 30 beacon properties being fully revalued as at this date and the remainder updated on a desktop basis for market changes since the last full valuation date. • We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for JLL, the valuation methodology and approach, and the resulting assumptions and any other relevant points.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing – continued		• We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • The valuation methodology remains consistent with the prior year. • We have agreed the HRA valuation report to the Statement of Accounts.	
Land and Buildings – Other – £550.7m	Other land and buildings comprises £299.7m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£250.1m) are not specialised in nature and are required to be valued at existing use value (EUV) at year end. The Council has engaged Jones Lang LaSalle to complete the valuation of properties as at 31 March 2020. 100% of total assets were revalued during 2019/20. In line with RICS guidance, the Council's valuer disclosed a material uncertainty in the valuation of the Council's land and buildings at 31 March 2020 as a result of Covid-19. The Council has included disclosures on this issue in Note 3. The valuation of properties valued by the valuer has resulted in a net increase of £3.0m. The total year end valuation of Other land and buildings was £550.7m, a net increase of £14.0m from 2018/19 (£536.7m). This net increase arises from the valuation process in combination with additions to and enhancements of property assets during the year.	• We have assessed management's expert, JLL, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. • All properties have been valued as at 31 March 2020. • We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for JLL, the valuation methodology and approach, and the resulting assumptions and any other relevant points. • We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. • Valuation methodologies applied are consistent with those applied in the prior year. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements – Council

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability – £83.6m	The Council's total net pension liability at 31 March 2020 is £83.6m (PY £184.4m) comprising liabilities relating to the Kensington and Chelsea Pension Fund and London Pension Fund Authority Local Government Pension Schemes and an immaterial amount of unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. This has led to material experience liabilities arising during 2019/20 as assumptions used were normalised for actual data. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £120.0m net actuarial gain during 2019/20.	• We have assessed the actuary, Barnett Waddingham, to be competent, capable and objective. • We have performed additional tests in relation to accuracy of contribution figures and benefits paid to gain assurance over the 2019/20 calculation carried out by the actuary. • We have used PwC as our auditor's expert to assess the actuary and assumptions made by the actuary – see table below for out comparison of actuarial assumptions:	🟢 Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.35%	2.35%	🟢
Pension increase rate	1.90%	1.85% - 1.95%	🟢
Salary growth	2.90%	1% above CPI	🟢
Life expectancy – Males currently aged 45 / 65	23.2 / 21.8	22.8 – 24.7 / 21.4 – 23.3	🟢
Life expectancy – Females currently aged 45 / 65	25.8 / 24.4	25.2 – 26.2 / 23.7 – 24.7	🟢

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate.
- We have confirmed there were no significant changes in 2018/19 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

Assessment

- 🔴 We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- 🟠 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- 🟡 We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 🟢 We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – key estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Level 3 investments	The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2020 at £70.5m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management relies on information provided by the General Partners to the private equity funds, who prepare valuations in accordance with the International Private Equity and Venture Capital Valuation Guidelines, and produce accounts to 31 December 2019 which are audited. . The value of the investment has increased by £9.4m in 2019/20, largely due to purchases and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate, including fund manager and custodian reports, and audited accounts of the private equity funds as at 31 December 2019 • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements	● Green
Level 2 investments	The Pension Fund have investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2020 at £835.3m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management make use of evaluated price feeds, with the exception of the valuation of property investments which is based on evaluation of market data. The value of the investment has decreased by £49.4m in 2019/20, largely due to sales and changes in market value.	• We have assessed the appropriateness of the underlying information used to determine the estimate • We have assessed the consistency of the estimate against peers and industry practice • We have reviewed the reasonableness of the increase in the estimate • We have assessed the adequacy of disclosure of estimate in the financial statements	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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Significant findings – key estimates and judgements – Pension Fund

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Valuation of Direct Property	During the year, the Pension Fund approved a mandate for direct investment in property. The Fund made its first direct property purchase during the final week of 2019/20, at a cost of £25m. The property is carried at cost in the net assets statement at 31 March 2020, on the basis that the fair value of the property had not changed materially in the few days since its purchase. This is held at level 2 in the fair value hierarchy, on the basis that the purchase price represents an observable input. Management are planning to reassess as level 3 in 2020/21, as the carrying value as at 31 March 2021 and future year-ends will be based on an independent valuation using a range of assumptions and subjective estimation techniques.	• We have assessed management's investment advisory expert, CBRE, and found them to be competent, capable and objective • We have reviewed the appropriateness of the underlying information used to determine the estimate • We have assessed the consistency of estimate against peers and industry practice • We have considered potential changes in market value of the property as a result of the Covid-19 pandemic. • We have assessed the adequacy of disclosure of estimate in the financial statements.	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious

Significant findings – matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view
Disposal of Kensington and Chelsea College site	During the year, the Council sold the Wornington Road site, which housed Kensington and Chelsea College, to the Department for Education. This asset had been held on the Council's balance sheet as an investment property since its initial purchase in 2016. The sale gave rise to a loss on disposal of £15m. The financial statements disclose that the sale is believed to be the best way to ensure the long-term educational and community use of the site and will enable significant investment in the College's future.	We are aware from our discussions with senior officers and wider audit procedures that the original purchase of the site was subject to an external investigation by an independent consultancy who reviewed the governance arrangements around the sale from the College's perspective. The Council has also commissioned a separate independent review into this and three other property investment transactions which occurred between 2014-2018. We have reviewed the relevant decision-making papers from July and December 2019 relating to the sale of the College, and are satisfied that the disclosure around the sale being in the interests of the long-term educational and community use of the site is consistent with the reasons for which the sale to the Department for Education was agreed as outlined in these papers.
Journal entries control environment	As in the prior year, we identified through our review of the journal entry control environment that: • Senior personnel are registered as managers and are theoretically able to post non-balance sheet journal entries • There is no two-stage authorisation process for journal entry postings in place. We have not identified from our sample testing of journal entries any material misstatements or indications of management override of controls. However, we only test on a sample basis and there may be undetected fraud or error.	Senior personnel should not have access to post journal entries to the ledger as whilst no postings were made by senior management during the year, this poses an increased risk of management override. It is best practice to include either a manual or automated two-stage approval process for journal entries to evidence that entries have been subject to adequate review prior to posting. Without this approval process we consider that there is an increased risk of undetected fraud or error. Management are satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.

Significant findings – matters discussed with management – continued

Significant matter	Commentary	Auditor view
Events after the balance sheet date – Thames Water legal case	The Council entered into a contract in 2002, whereby it collected water charges from its tenants on behalf of Thames Water and was paid a commission for doing so. In December 2019, the Royal Borough of Kingston-Upon-Thames lost a case brought against it by a tenant who held that their contract was for resale of water under which the recovery of commission was limited by law. The key issue in the case was whether the Council was acting as an 'agent' for Thames Water or a 'customer' in which case it was reselling water services and should have passed savings onto tenants. The Council, along with several other local authorities, had sought legal advice as part of a collective under the umbrella of the Local Government Association (LGA) pending the outcome of the appeal lodged by Royal Borough of Kingston-Upon-Thames. In October 2020, the Royal Borough of Kingston-Upon-Thames lost its appeal to the Court of Appeal over the High Court ruling. The court decision occurred towards the end of the audit and therefore the Council did not have the information available when preparing their draft financial statements. Previously, this potential liability was disclosed within the notes to the financial statements as a contingent liability – the liability being contingent on the outcome of the court case, which has now materialised. As the court decision relates to a past event, appropriate accounting treatment is to recognise the impact of this liability as an adjusting event within the financial statements, specifically as a provision under IAS37.	Management acknowledge that the conclusion of the case gives rise to a present obligation and associated liability as at 31 March 2020, and is as such an adjusting post-balance sheet event in accordance with IAS 10. However management have elected not to adjust the 2019/20 financial statements on the grounds that the adjustment is not material, but would seek to account for this provision within the 2020/21 financial statements. The associated payments will be financed from the HRA working balance. We are satisfied from audit procedures undertaken that this has not led to a material misstatement in the 2019/20 financial statements, however have reported this to members as an unadjusted misstatement as detailed at appendix C, and will request that those charged with governance approve management's accounting treatment as pat of the letter of representation.

Going concern – Council

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

The Council's financial statements have been prepared on a going concern basis, as disclosed in Note 1.

Management provided a narrative going concern assessment, cash flow forecast and Medium Term Financial Strategy extending over the three-year period to March 2023. Management's assessment acknowledges that the financial outlook for the Council is challenging, with a £25m budget gap having already been identified over the two years from 2021/22-2022/23, prior to the Covid-19 pandemic and its ensuing impact. The Council is implementing an outcomes-based budgeting and service transformation programme to align future spending plans to the Council's strategic priorities with the joint goals of bridging this gap and ensuring better outcomes for residents.

As a result of increased expenditure and diminished income, for instance from parking and commercial rents, due to the Covid-19 pandemic, the original 2020/21 budget is now forecast to overspend by over £40m. The majority of this will be offset by government funding, use of the prior year underspend, and use of the corporate contingency which had been set aside for the year. The residual £4.3m overspend will be filled through identification of additional savings opportunities or, if necessary, use of reserves.

The situation beyond 2020/21 is more uncertain as the longer-term impact of the pandemic on individuals and businesses in the borough, and by consequence demand for services, remains unclear. However, management are confident that the Council retains sufficient levels of useable reserves which as a last resort can be used to withstand the pressures faced during the period of their assessment.

Significant civil or criminal liabilities arising from the Grenfell Tower fire are not anticipated to materialise within the period of management's assessment, although the earmarked reserve funding set aside for delivery of the recovery strategy is expected to be utilised during this timeframe and this is built in to the forecast. Management's assessment takes account of likely funding issues to be faced during the medium term such as reductions in government funding and in the business rates tax base.

Work performed

We reviewed management's disclosures, going concern assessment, cash flow forecasts and Medium Term Financial Strategy, corroborating key inputs and assumptions to our wider knowledge gained through the audit process, and where applicable to supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment.

We are satisfied that management's assessment is based on accurate information including prudent assumptions around future income and expenditure levels, and likely shortfalls based on known events and best available information. We are satisfied that the Council holds sufficient useable reserves to mitigate the risk of any short-term funding shortfalls which may arise throughout the period of management's assessment.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Council's financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Council's ability to continue as a going concern
- the disclosures in the Council's financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Going concern – Pension Fund

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

The Pension Fund's financial statements have been prepared on the going concern basis. As disclosed in Note 2 to the financial statements:

The LGPS is a statutory, state back scheme that is 125% funded on a conservative basis and backed by an administering authority with tax raising powers. As such, the Pension Fund Accounts have been prepared on a going concern basis. It is recognised that the current environment gives rise to a risk of uncertainty and volatility in investment markets and the Fund has reviewed fund managers assessments and no material uncertainty has been identified. The Fund continues to monitor cashflows and invests in a diverse range of investment vehicles including availability to liquid assets.

The CIPFA Code requires that the Pension Fund's financial statements be prepared on a going concern basis, with paragraph 2.1.2.29 stating:

an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future (see also paragraph 3.4.2.23 for bodies that follow the Code but may be discontinued without statutory prescription). Transfers of services under combinations of public sector bodies (such as local government reorganisation) do not negate the presumption of going concern.

Management provided a written going concern assessment and supporting cash flow forecast, covering the period to March 2022.

Work performed

We reviewed management's disclosures, going concern assessment and cash flow forecasts, corroborating key inputs to our wider knowledge and supporting documentation. We considered, based on our understanding of the entity and the wider political and economic climate, whether material uncertainties may exist which were not explicitly covered by management's assessment. None were identified.

We are satisfied that management's assessment is based on accurate information including assessments over funding levels provided by the Fund's actuary, and prudent assumptions around future income and expenditure levels, based on the best available information. We are satisfied that the Fund holds sufficient liquid assets to enable any short-term funding shortfalls which may arise to be met throughout the period of management's assessment.

We identified that cash flow forecasting and budget monitoring are processes which have only recently been adopted by the Fund and there is scope for refinement in management's arrangements. We have raised a control recommendation in this regard within the Action Plan at Appendix A.

Concluding comments

We are satisfied from the work performed that:

- the going concern basis of preparation is appropriate for the Pension Fund financial statements
- no events or conditions exist which may give rise to material uncertainties casting significant doubt on the Pension Fund's ability to continue as a going concern
- the disclosures in the Pension Fund financial statements relating to going concern are adequate.

Our audit opinion in respect of going concern will be unmodified.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit and Transparency Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	Letters of representation have been requested from the Council and from the Pension Fund, which are appended to this report.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to all banking and investment counterparties. This permission was granted and the requests were sent. All required responses were returned with positive confirmation. We sent letters to those solicitors who worked with the Council and Pension Fund during the year and responses were received.
Disclosures	Our review of disclosures found no material omissions in the financial statements of either the Council or Pension Fund. The changes made to disclosures during the course of the audit are summarised in Appendix C.
Audit evidence and explanations/significant difficulties	Significant challenges were experienced in obtaining information from the Council's property valuation specialists. This has been reported in Appendix A, where we have recommended that management should implement an effective process for data sharing with their external property valuation specialists to ensure that they are able to adequately challenge the basis for the valuations included in the report and gain assurance over the material accuracy of reported figures. Management should also ensure all data informing management judgements in the accounts is available for audit scrutiny. Challenges and delays were also encountered in obtaining appropriate working papers for audit procedures in relation to creditor and debtor balances. Balance sheet reconciliation working papers for audit procedures in respect of creditors and debtors were provided in separate documents for each general ledger account code, with some account codes having several documents forming part of the overall reconciliation of outstanding items at year-end. This format was unmanageable for the purpose of the associated audit procedures including analysis of the nature of material elements of credit and debit entries contributing to the full year-end population and selection of sample items for testing. These factors led to delays in completion of the associated audit procedures. We raised a recommendation at Appendix A that management should ensure they produce listings of outstanding balances at a given date in a manageable format to enable them to understand the nature of overall line items in the balance sheet. These listings should be available for audit to enable the balance sheet debtors and creditors to be audited for existence and accuracy.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold of £500m, we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. At the time of writing, the group instructions have yet to be issued by the NAO. These procedures will be completed in advance of the mandatory deadline of 4 December 2020.
Certification of the 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 been able to issue our 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 • we have completed the required work on the consistency of the pension fund annual report with the audited financial statements • we have completed the procedures required for the Whole of Government Accounts Assurance Statement, which at the date of this report have yet to be confirmed by the NAO.

Value for Money

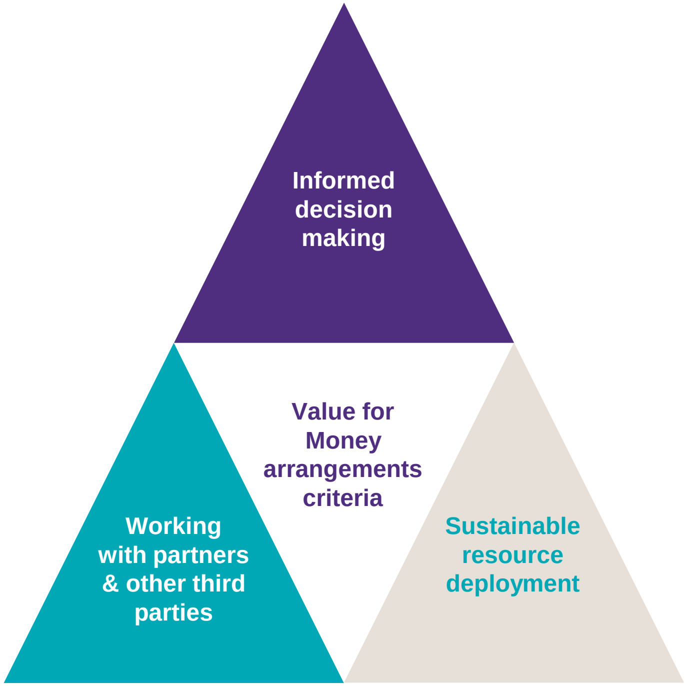
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single 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."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified a number of significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan dated February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any further significant risks where we need to perform further work.

We have not identified any new VfM risks in relation to Covid-19, however we have considered and commented on the potential impact of Covid-19 on the Council's future financial sustainability, and plans for addressing the arising issues, as part of our work in addressing the previously identified significant VfM risk around the arrangements in place for Medium Term Financial Planning

We carried out further work only in respect of the significant risks we identified from our initial and ongoing risk assessment. Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Revenue and capital outturn for 2019/20
- Approved revenue and capital budget for 2020/21
- Officer assessment of the impact of Covid-19 on forecasted costs and income for 2020/21 and future years, as reported to members
- Medium term financial plan for 2020/21-2022/23
- Analysis of reserves position relative to other comparable local authorities
- Findings of Phase 1 of the Public Inquiry into the Grenfell Tower fire
- Findings of the Independent Grenfell Recovery Taskforce
- Council and Committee reports discussing implementation of the Council’s revised Housing and Social Value Strategy and change and transformation programmes
- Discussions with key officers and internal audit

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 25 to 40.

Overall conclusion

We have substantially completed our risk based review of the Council’s value for money arrangements. However, we are unable to issue our conclusion in respect of this work for 2018/19 as the Council’s predecessor auditors have not yet issued their value for money conclusions in respect of the 2016/17 and 2017/18 audits, and as a result we were unable to issue our value for money conclusion in respect of 2018/19.

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.

The text of our report which confirms this can be found at Appendix E.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations for improvement.

Our recommendations and management's response to these can be found in the Action Plan at Appendix A

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Value for Money – Medium Term Financial Planning

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk	Findings and Conclusions
Medium Term Financial Planning 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. 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. We will review your arrangements for setting the Medium Term Financial Plan and examine underlying assumptions and dependencies for robustness. We will examine in detail the savings plans aimed at reducing future funding gaps.	**2019/20 outturn** In 2019/20 the Council recorded a net revenue underspend of £11.3 million, which was transferred to reserves at year-end. This comprised a net £0.1 million overspend across all services and an underspend of £10.4 million on corporate items. Use of reserves and other pre-existing resources in-year was lower than budget by around £1.0 million. The revenue underspend was driven primarily by lower than forecast borrowing costs and higher investment income as a result of slippage in the Council's capital programme. This is a consistent theme with the outturn against forecast observed in previous years. In the current climate, management have plans to reinvest the in-year underspend during 2020/21 to in-part offset the financial challenges faced arising from the Covid-19 pandemic. However, it will be critical that the Council develops mechanisms to more accurately forecast capital expenditure, and the associated revenue costs and income. This will enable available resources to be identified where possible for investment in service redesign programmes and address the ongoing pressures beyond the current crisis in the medium term, whilst also ensuring timely delivery of capital projects to support better outcomes for residents in accordance with the Council's strategic priorities. Management have recognised this need and are implementing a review of governance around the capital investment programme across the borough during 2020/21. The capital re-phasing in-year itself, which amounted to £24.0 million in the General Fund when compared to revised budgets, and a far higher figure of over £100 million when compared to original projections for the year, relates largely to spend which has now been rephased to 2020/21 or future years, meaning that intended outcomes for residents are still intended to be realised but within a revised timeframe. There is potential that further delays to projects could arise as a result of the Covid-19 pandemic and associated availability of labour and materials. This is a challenge of which management are consciously aware. Areas of particular risk were reported to members in July 2020 as part of the 2019/20 outturn report. The revenue position relating to services encompasses a number of minor underspends or breakeven outturns for the majority of service areas, with notable pressures continuing in demand-led areas including Housing and Children's Services. For housing, the most significant overspend in-year related to maintenance and repairs, which was brought back in house from 1 April 2019 having previously been outsourced to a subsidiary company. The additional spend included new staffing structures, which have been built into the 2020/21 base budget assuming reduced reliance on contract or agency staff, and works undertaken by the repairs service on acquired properties which in future will be transferred on to the General Fund. Management are conscious of the need to fully forecast and monitor the budget implications of changes in service delivery models in the immediate term as well as the ongoing impact. The impact of Covid-19 on the revenue outturn for 2019/20 was minimal, due to the pandemic only arising within the final few weeks of the period. However, as explored below, the impact on the 2020/21 budget is significant both in respect of increased expenditure and loss of income, and may also have a significant impact on the Council's ability to realise planned savings and efficiency programmes, deliver service transformation within planned timeframes, and reinvigorate its capital spending as noted above.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	**2020/21 budget**

<u>Original budget</u>

In March 2020, the Full Council approved a balanced General Fund revenue budget for 2020/21 which incorporated the maximum permissible 1.99% Council Tax increase alongside an additional 2% for the Adult Social Care precept. Inflationary increases were built into income assumptions around fees and charges, as agreed by members in December 2019. The budget incorporated £10.3 million in respect of forecast growth and planned investment in services together with £9.3 million of budget savings across directorates.

The budget maintained the unearmarked General Fund working balance at £10.0 million and the central contingency reserve, designed to provide resource to deal with in-year budget risks and unforeseen pressures, at £5.2 million. Net budgeted use of earmarked General Fund reserves for the year was £17.9 million for investment in planned projects as explored further under 'Sustainability of reserves' below.

Management acknowledged in the budget report to members that the 2020/21 forecast had been set against a background of risk and uncertainty in the medium term with regard to future funding mechanisms both for formula grant funding in light of the Fair Funding Review, and one-off allocations which had been made in the 2020/21 settlement to ease demand-led social care pressures faced by local authorities, as well as wider macro-economic uncertainties posed by factors such as the UK's exit from the European Union. As such, the budget setting process had been undertaken with an underlying aim to ensure financial sustainability in the medium term as well as 2020/21. This is something which officers rightly continue to keep sight of in responding to the subsequent challenges faced in light of the Covid-19 pandemic, responding to spending need and reprofiling forecasts accordingly, as explored further below.

Assumed service growth included demographic pressures across demand-led services including housing and homelessness, Children's Services and Adult Social Care, and additional costs arising from changing ways of working such as further disaggregation of pre-existing bi-Borough arrangements with the London Borough of Hammersmith and Fulham, bringing previously outsourced services in-house and the launch of new support functions for complaints, health and safety and community engagement.

Demand-led service growth assumptions are consistent with an observed increase in complexity in caseload in both Adults' and Children's Services, as well as increasing numbers within Children's Services, the statutory expansion of support to the age of 25 and increasing placement costs, all of which give rise to higher costs. Furthermore, management are conscious that the Borough has an ageing population including a high proportion of elderly people living independently which represent significant demographic pressures which could materialise in terms of further cost pressures in the medium-term.

Investment in the Housing budget reflects growing numbers of households in temporary accommodation reflecting low levels of supply, increasing costs of private sector rents for self-contained accommodation and known levels of Housing Benefit for tenants in temporary accommodation. Nevertheless, the Council is working to reduce the use of temporary accommodation through enhancing homelessness prevention activities, providing households with practical alternatives within the private rented sector, working with registered providers to increase housing supply and supporting residents to secure settled accommodation. £1.4 million of savings were consequently also built into the budget in respect of temporary accommodation.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	Other savings and efficiencies built in were aligned to the strategic priorities set out in the Council Plan, taking into account the Council's stated aim of putting communities and residents first, making the most of income received and spending in the right places. The majority of savings schemes identified for realisation in 2020/21 were relatively minor in relation to overall directorate budgets, and related to savings on staffing and third party payments, which is consistent with planned reduction in use of contractor and agency staff where service lines which were previously delivered using different models have been returned in-house. However significant assumptions were built in for temporary accommodation (£1.4 million as outlined above) and increases in parking income (£2.2 million). Parking income in particular is susceptible to non-realisation as a result of the Covid-19 pandemic as discussed further below. Additional savings to those identified in the prior year were not included in the 2020/21 budget in areas where comprehensive service delivery model review programmes are planned or already underway, for instance Adult Social Care. The longer-term approach to demand-led services in particular is to invest in preventative and self-help systems to improve the lives of residents and reduce the need for high cost reactive services in the future. £12.0 million of the 2020/21 revenue expenditure budget relates to delivery of the Grenfell Recovery Strategy which was agreed in January 2019, in respect of recovery services delivered for bereaved and survivors as well as the wider community. Progress against the Strategy and consideration of specific initiatives is considered further under the 'Grenfell Fire Recovery' significant risk below, however from a budgetary perspective, three years on from the tragedy, officers are confident that the cost implications of the ongoing service are known as these services become embedded into the Council's 'business as usual' operational activity. Concurrently to the General Fund revenue budget for 2020/21, the HRA revenue budget and General Fund and HRA capital programmes were also finalised and approved. In respect of the HRA, the key assumptions underpinning the draft 2020/21 revenue budget include the full cost implications of the revised staffing structure for repairs and maintenance which is now delivered in-house, with an overspend in 2019/20 recorded as a result of the costs associated this transfer not being fully budgeted for. Account has also been taken of the allowance for increases in rents to be permitted at a level of 1% above CPI, which gives a budgeted rent increase of 2.7%, representing the first rent increase in five years. Increases have also been assumed for energy costs to properties to be mapped more closely to and aligned to charges levied to residents for specific estates, and generic charges for garages and parking facilities and community alarm services both of which have increased by 2%. These increases are consistent with inflationary increases agreed for fees and charges as approved by members in December 2019. Planned capital investment in 2020/21 includes enhancement of facilities for provision of both Adults' and Children's social care and special educational needs provision, enhancement of schools, transport and improvements to the transport and street scene, refurbishment of Pembroke Road office used for transport, environment and leisure services administration and routine maintenance of the Council's operational property estate. In addition, the Council has committed £35.8 million and £18.6 million in 2020/21 to new homes delivery and acquisition of street properties respectively to support the strategic aim of improving social housing supply in the Borough. The majority of the forecasted total £205.5 million capital spend in 2020/21 is budgeted to be financed through capital grants and contributions (£30.1 million), use of the capital receipts reserve (£58.2 million) and external borrowing with the PWLB (£96.8 million). The external borrowing requirement is considered to be affordable and consistent with the Council's Treasury Management Strategy, in particular given that interest rates remain low and this is not expected to change in the short-term given the current economic climate.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	The New Homes Programme is considered to be self-funding and although borrowing costs will be incurred, the anticipated rental income from these properties will fund the borrowing costs from 2022 onwards. The investment in particular in the HRA is considered to be a necessity and supports the improvement to council homes following the stock condition survey in 2018. This is consistent with the Council's Housing and Social Investment Strategy as considered further under the 'Cultural change and transformation' significant risk below. Impact of Covid-19 As a result of the Covid-19 pandemic, the original 2020/21 budget as set in March 2020 is now predicted to overspend by around £42.4 million. This forecast overspend includes additional spending pressures relating to Covid-19 amounting to £13.6 million combined with expected loss of income compared to budget of £28.3 million. This position is being carefully monitored by management and monthly returns in respect of cost and income pressures are being compiled and submitted to MHCLG. From the outset of the pandemic, the Council's executive leadership were acutely aware of the need to ensure that spend relating to the Covid-19 response was carefully monitored and recorded in a clear and transparent way within the Council's financial systems. A comprehensive coding system was implemented which has instilled a sense of discipline in terms of properly understanding the costs and represents robust financial management practices. This represents a direct learning point from the Council's immediate response to the Grenfell Fire tragedy, where costs were not clearly disaggregated from the start, leading to challenges further down the line in reporting transparently on the fire's financial impact on the Council. For 2020/21, the most significant areas of projected expenditure pressure relate to increased provision of Adults and Children's social care as a result of anticipated increased demand in these services (£6.4 million), as well as direct costs associated with response to the pandemic (£5.1 million), including inception of the community support hub, acquisition of PPE, allocation of hardship funds and unachieved savings due to delays in implementation of service redesign initiatives. In respect of income, the Council are forecasting a reduction of £14.3 million compared to budget for income from parking enforcement collectable during 2020/21, and £8.9 million reduction in commercial rents from investment properties. Collectability of both Council Tax and Business Rates is also expected to be significantly hindered as more residents and businesses are likely to face hardship as a result of the pandemic. Central Government has partially recognised the challenges faced by local authorities in respect of Covid-19 and in March and April 2020 allocated two tranches of central funding which totalled £3.2 billion nationwide. The Council's share of this income amounted to £10.2 million. A further package of support was announced in July 2020. The Council will be directly eligible to receive a further £1.8 million in grant funding. This funding will offset a total of £12 million of the expenditure and income pressures outlined above. In addition, the Government has announced proposals to fund 75% of 95% of lost budgeted fees and charges income for local authorities, which can unavoidably not be recovered in 2020/21 and are not already offset by other support. The guidance provided by MHCLG makes clear however that this does not include investment income or commercial rents, and only covers income directly related to the provision of services. Management's best estimate is that around £18.6 million of the Council's lost income could be eligible to be reclaimed from the Government through this scheme, which would offset a further £10 million of the forecast overspend for the year.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	Finally, the Government has also announced the re-phasing of repayments to meet Collection Fund deficits accrued in 2020/21 over three years rather than one. This will be beneficial to the Council in the short-term due to anticipated significant reductions in income, particularly relating to Business Rates in 2020/21. However, in terms of the Council's medium- to long-term financial sustainability, this does not alleviate the impact as deficits will still need to be met from available resources by 2023/24. The combination of Central Government interventions set out above will potentially reduce the forecast overspend for 2020/21 to £20.7 million, although this is still subject to finalisation and further uncertainty for instance in the event of a second wave of the pandemic. The Council recognised an underspend against its revenue budget in 2019/20 of £11.3 million, of which £0.4 million was transferred to the Parking Reserve and £10.9 million to the Budget Stabilisation Reserve. Management's plan is to utilise this balance in its entirety to offset additional spend incurred in 2020/21. The £5.1 million originally budgeted for corporate contingency will also be used for Covid-19-related pressures. These measures further decrease the forecast overspend to £4.3 million. To offset the remainder, management are undertaking a review of savings reductions to service budgets in addition to the efficiencies already recognised in the original 2020/21 General Fund revenue budget in order to determine whether reductions in spend forecast for future years can feasibly be brought forward given the current climate and identify any further opportunities. Whilst there is potential that some in-year savings may be identified through this process, officers acknowledge that the likelihood of identifying significant sustainable efficiencies is minimal. Management set out in a report to the Audit and Transparency Committee in July 2020 that use of reserves would only be considered when all other options had been exhausted, which is consistent with the principles of prudent financial management in particular when considering the wider pressures and uncertainties faced beyond the current crisis. The Council holds sufficient earmarked useable reserves to cover any remaining shortfalls after the implementation of the above measures if required, whilst maintaining its £10 million General Fund working balance in line with the approved reserves strategy. However excessive use of earmarked reserves would significantly alter the medium-term picture, capacity for investment in more sustainable service delivery models which officers are planning in order to enable them to realise improved outcomes for residents over the years to come, and capacity to manage the impact of any further unforeseen events which may arise. **Medium-term financial planning** In 2018/19 we reported that management had identified a funding gap of £40 million in the Council's medium term financial plan for the three year period from 2020/21 – 2022/23, which would need to be met from a combination of reduced costs and increased income. The Council already had in place a range of efficiency programmes and service reviews across different directorates and was in the process of bringing these together into an outcomes-based budgeting and service transformation programme (the Futures Programme) which aligned transformation and change, and associated efficiency plans, to the strategic priorities in the Council Plan. During the year the Council continued to engage external consultancy support to assist with its medium term financial planning, service transformation and savings programme and develop a coordinated approach. This was in recognition of the fact that the Council's existing structure did not have dedicated resource to support a programme of the required pace and scale for implementation. The intention set out by management and approved by members was that external support could be used to harness internal expertise and identify areas for priority delivery plans to be put in place to support sustainable change based on clear business cases for service redesign and budgetary alignment to the strategic priorities set out in the Council plan.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	In conjunction with this, recurrent efficiencies and opportunities could be identified and knowledge within the Council could be consolidated to build internal capacity for change and overall business resilience. The Medium Term Financial Strategy (MTFS), as approved in July 2019, recognised that Central Government funding levels for the Council, along with all inner-London authorities, is likely to decrease as a result of the Fair Funding Review. The timing of this review remains uncertain and is likely to be delayed further as a result of Covid-19. Management are keen to proactively engage with any discussions with the Government around proposals for potential additional devolution of funding, to facilitate a greater level of control over uncertainties which currently exist. Further general assumptions were made around pay and price inflation, Council Tax increases, reductions in service-specific grants and known spending pressures. In the current climate, officers are in the process of reviewing all assumptions built in to the MTFS in light of the impact of Covid-19 and other known changes, with a view to finalising a revised plan and identifying revised budget gaps by October 2020. This is a process built on management's best estimates, given residual uncertainties which could significantly impact the Council's financial outlook, such as the pattern of local and national economic recovery and the impact this will have on the Council's ability to raise previously anticipated levels of income. Management are conscious that some levels of income may not recover within the timeframe of the MTFS, if ever, as well as the risk of a second wave of the pandemic and further lockdown restrictions, which could further damage the economic health of the Borough for both businesses and individuals. The factors above are in addition to previously identified risk areas including Government funding as discussed above, as well as the Council's operational ability to realise its savings plans, which could be impacted by capacity with officers' focus rightly on the response to Covid-19, the bearing of Brexit in particular on the economy and external cost pressures, the financial resilience of key partners, and the outcome of the Grenfell Tower fire Public Inquiry and investigation, which could lead to unforeseeable costs for the Council, including funding required for delivery of the Recovery Strategy, which represents the Council's principal strategic priority. To mitigate the risks posed by the uncertainties outlined, management are engaging in scenario planning to identify the resource position in the worst case and build up their planning assumptions from this point in a prudent manner. Officers are working closely with their networks across other London Boroughs and near neighbours which provides mutual external challenge to assumptions being made. The external support previously engaged to assist with the redesign of the Council's MTFS has also been drawn on to provide context of experiences of other local authorities This is the case both in medium term planning as well as the short term impact on 2020/21 budgets. **Sustainability of reserves** It is critical that management continue to look beyond the current crisis and maintain sufficient reserves relative to likely future pressures as systemic change and transformation become embedded and begin to realise substantive recurrent savings, to mitigate risks posed by external factors outside of member and officer control. As at 31 March 2020, the Council held useable reserves both in terms of value and in terms of ratio to net revenue expenditure which was around an average level for London Boroughs, as illustrated by graphs 1 and 2 below.

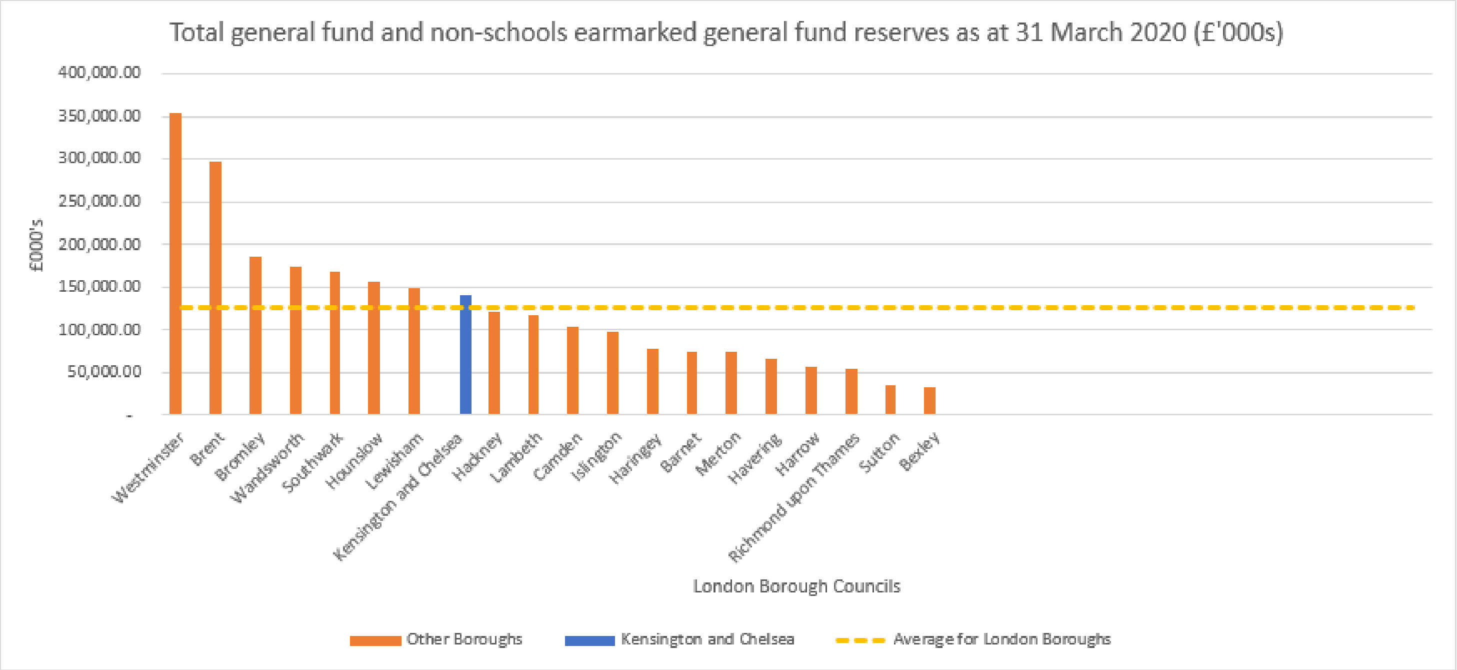
Value for Money – Medium Term Financial Planning

Significant risk | **Findings and Conclusions**

Medium Term Financial Planning

continued

Graph 1: total general fund and non-schools earmarked general fund reserves as at 31 March 2020



Population: London Borough Councils which had published draft 2019/20 financial statements by 17 July 2020

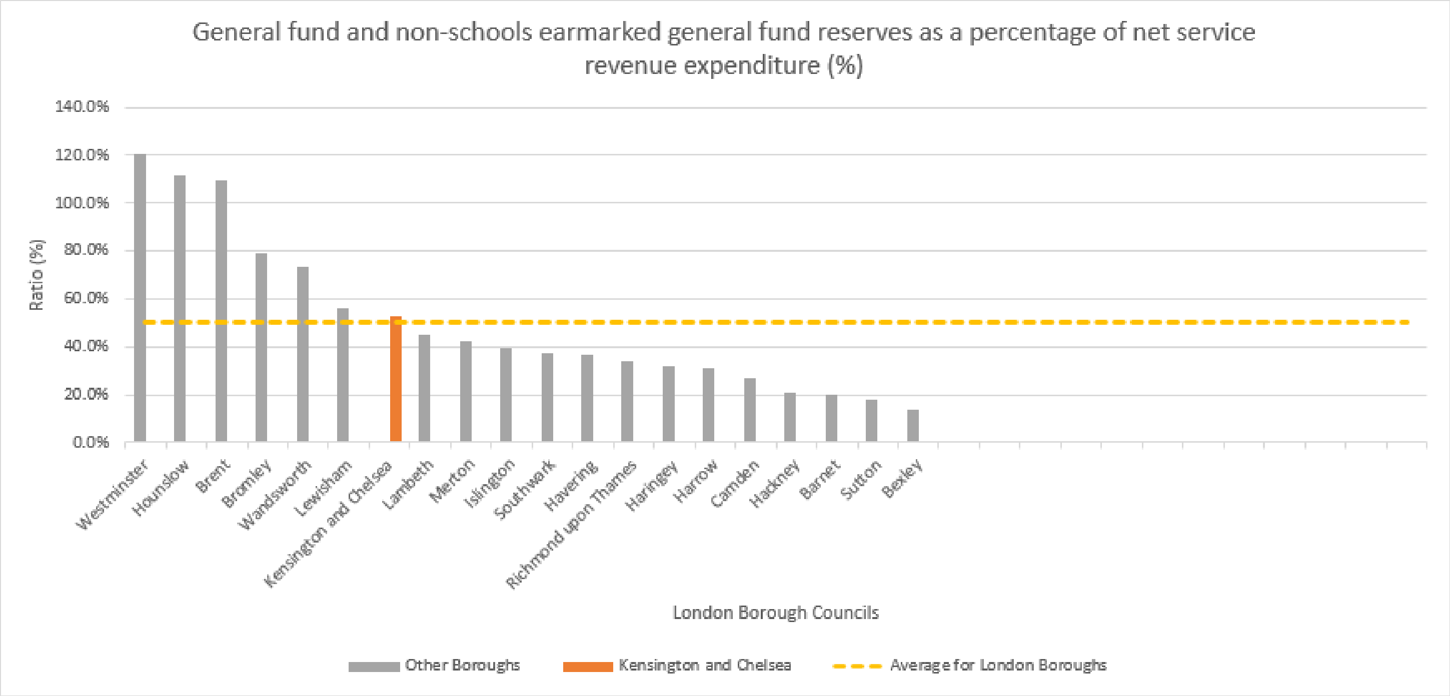
The Council has plans in place to utilise a significant proportion of its existent reserves over the medium term in accordance with the purposes for which the reserves were designed and funds were originally set aside.

For instance, the special projects reserve will be used to fund the Futures programme, which focuses on service redesign and transformation, with the aim to give rise to significant recurrent efficiencies as invest to save initiatives. The Grenfell reserve will be utilised to support ongoing support and recovery initiatives and support delivery of the Grenfell Recovery Strategy. Large elements of the parking reserve have been allocated against eligible schemes in the capital programme. The Public Health reserve is planned for use in respect of investment in preventative activities to lead to long-term sustainable improvements, for instance services for people with dementia, mental health and wellbeing and serious youth violence.

Proposals have also been approved to create an Affordable Housing Reserve during 2020/21, with the initial balance of £10 million, relating to the capital receipt from the sale of the Wornington Road site housing Kensington and Chelsea College to the Department for Education. This is concurrent with the Social Investment and Housing strategy.

Value for Money – Medium Term Financial Planning

Significant risk	**Findings and Conclusions**
Medium Term Financial Planning continued	Graph 2: General fund and non-schools earmarked reserves as a percentage of net service revenue expenditure as at 31 March 2020



Population: London Boroughs which had published draft 2019/20 financial statements by 17 July 2020

The overspend on the Dedicated Schools Grant in-year and in the previous three years, in particular in relation to the High Needs Block, has led to a cumulative £4.9 million deficit on the Dedicated Schools Grant reserve as at 31 March 2020. The 2020/21 budget forecasts a small underspend against funding as a result of a detailed review of all expenditure in this area. However, this is one of the most unpredictable elements of the Council's budget given the demand-led nature of services provided from the High Needs Block. The number of children within the Borough being subject to Education, Health and Care Plans (EHCPs) or requiring home to school transport has been observed to have been steadily increasing by around 5% each year and this trend expected to continue, with volume and complexity of support required being a key driver of associated expenditure.

Whilst this funding is outside of the Council's direct control, unless the cumulative deficit is recovered in future years this could form a further call on useable reserves which will need to be considered within budget-setting in the medium term. A deficit recovery plan has been prepared and submitted to the Department for Education, which projects the situation improving over the medium term.

Value for Money – Medium Term Financial Planning

Significant risk	Findings and Conclusions
Medium Term Financial Planning continued	Officers and members have worked closely with the Schools Forum to carefully consider options for delivering services differently, whilst taking into account the changes in complexity of the demand pressures which the service is likely to face. As such, whilst the Council appears to have a moderately healthy level of useable resources at its disposal, it is critical that members and officers do not become complacent or lose sight of the longer-term challenges in determining an appropriate response to the current crisis. Careful monitoring of realisation of anticipated benefits from change programmes and service transformation initiatives, which are planned to be invested in over the course of the MTFS, will be fundamental to enabling officers to revise and refresh the Council's financial strategy to ensure financial sustainability. **Conclusion** 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. 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. 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. 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.

Value for Money – Grenfell Fire Recovery

Significant risk	Findings and Conclusions
Grenfell fire recovery 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. Th 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. We will evaluate arrangements in place for continued leadership of the recovery process and working with stakeholders to maintain transparency and trust.	**Public Inquiry** Phase one of the Public Inquiry into the Grenfell Tower fire, for which the concluding report was published in October 2019, focused on events on the day of the tragedy. The report included minimal discussion of the role or response of the Council, aside from noting that communications and strategy alignment between the Council and the former Tenant Management Organisation (TMO) had not been effective, with limitations in lines of accountability between the two parties. This is something which has already been acknowledged, with the functions of the TMO having returned in-house to the Council with effect from 1 March 2018. Since the tragedy, the Council has also actively pursued a general strategy of reviewing delivery models for services and bringing these back in house where this is believed to create the most positive outcomes for residents and the community. During 2019/20, the housing repairs service was brought back into the Council, as the subsidiary company to which this was previously outsourced ceased trading. In unrelated areas, the Council is also considering the benefits of shared or outsourced working arrangements and considering the optimum delivery models on a service-by-service basis to enable strategic priorities to be met. A key part of this is ensuring appropriate governance procedures under collaborative arrangements and demonstrating transparent, consistent ways of working. The Council has reflected this approach in its response to the Covid-19 pandemic in working collaboratively with other London Borough Councils and wider stakeholders, openly sharing information and adopting best practice in respect of monitoring and reporting on risks and responses. The second phase of the Inquiry commenced in January 2020 and was paused in March 2020 as a result of the Covid-19 pandemic. Proceedings then resumed in July before finishing for the summer recess until early September. This phase looks into the events leading up to the fire and is comprised of eight separate modules reviewing different aspects, some of which will involve more detailed evidence being given by the Council or former officers. According to the original timeframe, by the summer of 2020 the second of the eight modules, relating to the cladding products used in the refurbishment of the Tower, was due to be completed. As things currently stand, the first module, relating to an overview of the refurbishment, remains underway. This will cause a delay to the overall timeframe to the second phase of the Inquiry and its subsequent report. The precise impact of this in terms of timing remains uncertain. However, the seventh module, which was due to be completed by Easter 2021, is now expected to take place towards the end of next year. Following this, the eighth module, which will comprise of hearing the reports from coroners' inquests, will commence. Due to the sensitivity and nature, this final stage could last for up to a year and then several months will be required to compile and finalise the report, meaning an approximate timeframe for this could now be mid to late 2023. The deferral of this process has a number of impacts for the Council and its leadership of the recovery process. Firstly, the protraction of the timeframe for the Inquiry adds an additional layer of complexity to the Council's relationship with the bereaved, survivors and wider community as explored below in relation to the Recovery Strategy, and instilling a sense of closure. The Covid-19 pandemic has led to some concerns around accountability to those affected, given physical distancing restrictions limiting numbers present at the Inquiry to those directly giving evidence. The Council's relationships with the survivors of the fire and bereaved families is understandably sensitive during the period since the fire, not least due to the high level of media, public and national political interest surrounding these events. Secondly, the ability of the Council to fully move forward and embed learning from the tragedy in its approach to future service delivery is protracted. For the last two years, the Council has had in place a dedicated Grenfell directorate incorporating specifically the dedicated service which has become part of the Council's business as usual. However the Council Plan encompasses a range of strategic priorities underpinned by core principles, to facilitate better outcomes in respect of service delivery for all residents of and visitors to the Borough. Grenfell recovery remains the Council's top priority, but it is the entrenching of the learning from this process which will enable the Council to reinvigorate its culture and public perception as a forward- and outward-looking organisation.

Value for Money – Grenfell Fire Recovery

Significant risk	Findings and Conclusions
Grenfell fire recovery continued	Finally, in a financial context, it is possible that the Council could face significant civil claims from those affected by the fire. Minor and straightforward claims of low value have been received and settled to date. Total claims could be in excess of the Council's insurance indemnity limit of £50 million, although the majority of these are not expected to materialise until the conclusions of the Public Inquiry have been drawn. As such, it is extremely challenging for the Council to attempt to quantify the scale and timing of future civil liabilities and begin to plan for the impact this will have on operational finances, and by default, patterns for future service provision, or to engage in holding meaningful discussions around potential future support from third parties such as MHCLG. In addition to the civil liabilities, the Metropolitan Police criminal investigation into the Grenfell Tower fire, which is occurring concurrently to the Public Inquiry, could under one scenario result in the Council being charged with Corporate Manslaughter, which currently carries a penalty of an unlimited fine. Current and former officers and members have been providing evidence in support of the investigation throughout the year. The Council is aware that the investigation is unlikely to conclude until the findings of the Public Inquiry are known as these will be critical in determining the overall balance of responsibility for the tragedy. This casts further uncertainty on potential liabilities faced by the Council in the medium to longer term horizon. **Taskforce findings** During 2019/20, the Grenfell Independent Taskforce, which has supported the Council with developing and implementing its long-term recovery plan for the bereaved, survivors and wider community, published its fourth and fifth reports in September 2019 and March 2020 respectively. The Taskforce has now concluded its work and was stood down by the Government with effect from 31 March 2020, with an independent advisor on Grenfell being appointed within the Government's Grenfell Ministerial Recovery Group. Key findings from the final reports of the Taskforce were that whilst good progress had been made in respect of delivery of the Recovery Strategy and positive actions had been taken in respect of each of the recommendations set out in earlier reports, concerns remained about the pace of change, culture within the Council as an organisation and the quality of the Council's relationship with the bereaved and survivors. Acknowledgement was made that in the context of the ongoing Public Inquiry, strain in respect of the last point was inevitable. Pace of change is a particularly pertinent point in respect of the current Coronavirus pandemic. There is a risk that plans put in place could be hampered by necessary focus from the Council's leadership on response to the current crisis. However, there is also an opportunity for the Council's management and leadership to embrace more flexible ways of working and engagement with residents which have become the norm as a result of the lockdown restrictions. This is explored further under 'Cultural Change and Transformation' below. **Recovery Strategy** We reported in 2018/19 that the Council had approved a five-year Grenfell Recovery Strategy in January 2019, committing over £50 million and 300 officers to form a dedicated Grenfell directorate. The Strategy was formulated taking on board the Council's core commitments to Grenfell survivors arising from recommendations made by the Centre for Public Scrutiny. Alongside the Recovery Strategy, the Council also adopted the Hillsborough Charter, which set out principles for organisational behaviour and transparency in the face of public tragedy.

Value for Money – Grenfell Fire Recovery

Significant risk	**Findings and Conclusions**
Grenfell fire recovery continued	During the year, the Council has implemented support for the bereaved and survivors in accordance with the Strategy, notably including the following areas within its short- and medium-term budgets: • The Dedicated Service, which provides wraparound, personalised support for bereaved and survivors; • Housing support, including a dedicated Housing team to support those who have not yet moved into permanent accommodation and housing management services for those who are in their new homes; and • Accommodation costs for those who remain in temporary and emergency accommodation. The budget for the wider community includes funding for: • Ongoing emotional support and other commissioned services in schools and other community-based settings, including funding for new commissioning; • Direct support to families and individuals affected by Grenfell from the wider community through the Malton Road hub; • A community programme to support community-led recovery, including funding for The Curve community centre, the Grenfell Projects Fund and Community Leadership Programme and wider engagement with the local community; and • Housing support and accommodation for Wider Grenfell households who are in temporary accommodation. Resources have also been allocated for centralised delivery and monitoring of the above services. Responsibility for delivery and realisation of these objectives is embedded throughout the Council. Whilst the formal Strategy has a duration of five years, it is recognised by officers and members across the Council that, due to the nature of the events, some of the survivors and families of those affected will require a lifetime of support. It is also acknowledged that initiatives will need to be adapted as the needs and priorities change over time. The Taskforce in their fifth report were satisfied that key Recovery Strategy workplans had put into place effective operational plans which were subject to suitable reporting and oversight, including key milestones, responsible officers, risk registers and mitigation actions. The Council is also subject to scrutiny of external stakeholders through the Grenfell Strategic Partnership Board. In addition, the Council acknowledges that the Recovery Strategy cannot be delivered in isolation and has continued to work closely with key partners across the Government, NHS, schools, businesses and voluntary organisations. Senior executive officers of the Council have been proactive in continuing to engage positively with key focus groups such as Grenfell United throughout the year. It was noted that some of the success measures against the Strategy could be more clearly defined to enable members and officers to self-assess against how well the intended objectives had been met, and wider stakeholders to form an objective view. During the year, the Council also devised and adopted a Charter for Public Participation, which was incorporated into the Council's constitution with effect from 1 March 2020. The Charter is considered by the Council's leadership to be one of the key commitments against which the Council expects to be held to account by local residents. This sets out the ways by which the Council intends to consult with, engage and encourage participation of local people in decision making processes, as well as maintaining transparent communications around the rationale behind policy, arising issues and options for addressing future concerns.

Value for Money – Grenfell Fire Recovery

Significant risk	Findings and Conclusions
Grenfell fire recovery continued	It is critical that progress against both the Recovery Strategy and the Hillsborough and Public Participation Charters adopted as part of this is carefully monitored and transparently reported to members and the public. There is a risk with several lines of scrutiny that the priorities and clear reporting become obscured, leading to frustrations around lack of focus for the communities affected. The Council's overall overview and scrutiny arrangements changed with effect from September 2019 and there is a risk that this has taken some time to become embedded, and partially diminish clear lines of accountability in the short term. As the Council's highest strategic priority in the Council Plan, it is inevitable that in any given year a number of specific measures and initiatives will be implemented to support the Grenfell Recovery Strategy. This is essential in ensuring that the Council continues to move forward, learn and develop and, whilst continuing to constructively contribute to and assist with the Public Inquiry and police investigation, does not become fixated on the past. It is equally crucial that these measures are not perceived as 'tokens' or become disjointed, or lose effective and clear governance and oversight. The Council's leadership has a clear vision around how the organisation will move forward and the culture it wishes to create and embed in the wake of the Grenfell tragedy. It is important that steps to achieving this vision are clearly articulated to enable all who will be affected to hold the achievement of this goal to account. **Conclusion** 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.

Value for Money – Cultural Change and Transformation

Significant risk	Findings and Conclusions
Cultural change and transformation 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. 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.	**Futures programme** In the current environment it is more important than ever that the Council seeks to build sustainable services for the future which can weather the storm of the challenges to come and continue to deliver high quality outcomes for residents of the Borough. Prior to the pandemic, the Council was conducting an evidence-based Value for Money review of all services to identify opportunities for service re-alignment, income generation and reductions in spend, whilst attempting to facilitate improvement in outcome delivery and align expenditure and investment to strategic priorities. This was referred to as the 'Futures programme' and incorporated the principles of programme management and outcomes-based budgeting and service redesign. The Futures Programme seeks to assess the value added by specific services, acknowledging that the Council has historically been one of the highest spending per capita, through use of benchmarking datasets around financial activity and service performance and outcomes. The Programme is seeking to transform services to be future-fit whilst reducing the impact on frontline priority service delivery. A special projects reserve was set aside for the funding of the project. Management were conscious that the success of the project in the medium- and longer-term in terms of ensuring resilience would be to harness and develop internal skillsets within the Council as an organisation, such that new ways of working could become embedded. As such, a joint Programme Management Office was created with both internal staff and external support. Data analytics and benchmarking is being used to align spend with priorities and identify opportunities for achieving more for less, with information around the mechanisms and alternative operating models from knowledge of what works elsewhere or emerging practice to generate the ideas and opportunities. The aim was that this would then lead to working with services to develop robust, evidence based business cases for change, ensuring that there sufficient proposals were developed to meet the required budget reductions whilst also providing assurance to members and wider stakeholders as to how priorities will be delivered. The programme has been formulated with clearly defined deliverables and outcomes, with a focus on benefit realisation and the adoption of clear measures by which success of priority delivery can be monitored and assessed, to inform management information frameworks. Key elements of the futures programme involve a thorough review of the client pathway for Adult Social Care to support and develop a long-term sustainable service focused around choice and control for individuals, including strength-based support, developing strong and resilient communities and flexible accommodation options. Governance structures including priority based working groups, cross-cutting project boards and monthly 'Futures Boards', and standardised project documentation and reports had been devised. In 2018/19 we reported that proposed timeframes for implementation of the programme appeared highly ambitious, with the risk that outcomes would not be sustained and genuine cultural change would become embedded in the desired timeframe. Management acknowledge this and accept that the Futures programme will be one of continuous improvement and development over the medium term. This is particularly the case given the current necessary focus on response to the Covid-19 pandemic, which gives rise to the risk that previously in-progress initiatives are ignored or abandoned by officers and members as the Council focuses on crisis response. It will be crucial that management seek to continue the momentum built up across the entire organisation in order to bring about long-term sustainable change rather than being consumed by the current crisis and seeing a transformation programme as a short-term fix to budgetary shortfalls.

Value for Money – Cultural Change and Transformation

Significant risk	Findings and Conclusions
Cultural change and transformation continued	It is encouraging that management's proposals for bridging the funding and lost income gap anticipated in 2020/21 as a result of the Covid-19 pandemic do not eat into resources which had been set aside for delivery of this programme. The Futures Programme, which is now being repositioned into post Covid-19 as part of the Transitions and Recovery workstream, has been built on strong foundations, with a strong vision across the organisation, aligned to the Council plan, being in place. Principles of project management have been set out both to members and to officers in management positions across the Council, and the Council's executive leadership demonstrate a recognition that the change programme must be owned by the Council's management at all levels, albeit with practical support from external consultants, in order for reformed ways of working to become embedded. The Programme is at an early stage and as it seeks to move forward to delivery and transition into post Covid-19 recovery as part of the Transitions and Recovery work, the success of both implementation and monitoring, including realisation of clearly identified and articulated benefits as set out in documented business cases, remains to be evaluated. A thorough understanding of the critical path analysis and interdependencies will be key to minimise the impact of slippage, including any which could be caused by the current crisis, and enable effective prioritisation of delivery. It will also be essential that the anticipated benefits and desired outcomes 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. **Housing and Social Investment Strategy** One of the key ways in which the Council has adapted to its changing priorities is through the reorganisation of its directorate structure with effect from April 2019. In particular, a Housing and Social Investment directorate has been formed and a number of key senior appointments made to its executive leadership team over the course of the year. This investment is significant as it will allow the Council's management to continue to focus on driving forward the cultural change and service delivery, whilst ensuring capacity to respond effectively to the Public Inquiry into the Grenfell Tower fire, simultaneous police investigation and response to Covid-19. To some extent this mitigates the risk we identified in our 2018/19 report around significant changes being implemented at the Council with limited oversight and management capacity. The directorate is also symbolic of the Council's revised approach to investment which is based on delivering social and community benefit alongside investing for the public interest. In December 2019, the Council launched an ambitious Housing Strategy which has committed to investing around £250 million to deliver 600 new homes in the Borough, of which at least 300 will be for social rent and the remainder will be intermediate housing, private rented or market sale homes. As approved by members in the Budget Report in March 2020, the capital receipt from the sale of the Wornington Road site housing Kensington and Chelsea College to the Department for Education which occurred during the year, will be used to entirely invest in social housing through creation of a specific earmarked reserve. As well as the specific priorities such as building sufficient housing stock and ensuring affordable and social rents, the Strategy encompasses two cross-cutting themes which demonstrate learning applied from the Grenfell tragedy – working with residents to involve them in decision-making, and joined-up working with key partners both internally and externally, to ensure that coordinated approaches are designed which have maximum impact for communities. The Strategy was devised and amended on the basis of public consultation and feedback. In July 2019, the Chief Executive set out a revised approach and strategy for management of the Council's non-operational property portfolio which at its heart noted that commercial considerations should not be the primary consideration in the Council's ownership of land and property. Instead, property ownership would be best viewed as an enabler of the Council policies and priorities, with operational assets meeting future service needs and commercial property investment decisions having regard to community benefit and social value.

Value for Money – Cultural Change and Transformation

Significant risk | **Findings and Conclusions**

Cultural change and transformation

continued

As part of this, and in conjunction with wider priorities around engagement with the Grenfell community and principles of transparency and learning, the Council, in conjunction with Grenfell United, has commissioned an independent review into the propriety of four commercial property transactions which occurred between 2014 and 2018. External consultants have been appointed to assesses the factors influencing the decision-making at both executive and political leadership in respect of these transactions, as well as what the Council has done since the Grenfell tragedy to reform its approach. Executive leaders at the Council have noted that this review has provided reassurance that there were no significant findings which came as a surprise or of which they were not aware, and no impropriety noted, however draws focus to the trajectory which the Council is on in reforming its approach going forward.

Further to the Housing and Social Investment Strategy, the Council is also in the process of developing a wider Social Value Strategy which will inform approaches to wider procurement, encompassing wider engagement with local communities to commission and deliver services in a way which benefits residents and meets the aims of the Council Plan, whilst focusing on maximising financial, social, environmental and economic value, in a coordinated way. The Social Value Strategy will seek to identify examples of good practice already occurring within the Council and apply these across the organisation.

The Council's strategies outlined above have clearly defined outcomes and milestones which are being monitored on a regular basis by members.

Learning from Covid

Along with all organisations across the public and private sectors, the Council is considering how to take forward the benefits from the period of largely remote working which has been necessitated by the Covid-19 pandemic. This includes considerations such as flexible working, effective use of office space and the ways in which services are delivered, for example how remote communications with clients to support delivery of Children's Services, which has been necessitated by the Covid-19 pandemic, can be adapted and used going forward.

It is evident in the approach taken to risk management and decision-making during the pandemic that learning from the aftermath of the Grenfell fire has been effectively applied by the Council's leadership. Emergency planning arrangements had already been designed following the tragedy and training on emergency responses had been delivered to staff in early 2020, prior to the outbreak of Covid-19 in the UK. These were then able to be invoked immediately upon the outbreak and involved a Tactical Pandemic Advisory Group and regular strategic ('Gold') and tactical ('Silver') meetings occurring from the start of the lockdown, with findings feeding in to London-wide initiatives. The structures in place facilitated rapid response to the crisis including initiation of specific services including the Hub providing support to residents. This is indicative that the cultural changes within the Council as an organisation, which have been implemented and encouraged since the Grenfell tragedy, are beginning to become embedded.

Conclusion

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.

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.

Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D

Independence and ethics

Audit-related and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

	Fees £	Threats identified	Safeguards
Audit related			
Agreed upon procedures relating to pooling of housing capital receipts (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £122,497 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate (Council)	5,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £122,497 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.
Certification of Housing Benefit Subsidy Claim (Council)	20,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £20,000 in comparison to the total fee for the audit of £122,497 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

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Independence and ethics

	Fees £	Threats identified	Safeguards
Audit related (continued)			
Agreed upon procedures relating to adult learning subcontracting controls (Council)	6,000	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £6,000 in comparison to the total fee for the audit of £122,497 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. To mitigate against the self review threat, this work will take place after the audit is completed. The amounts involved are not material to our opinion meaning that the likelihood of material errors in the financial statements arising as a result of this work is low. The Council has informed management who will decide whether to amend returns for our findings, and agree the accuracy of our reports.

	Fees £	Threats identified	Safeguards
Non-audit related			
CFO Insights Subscription (Council)	12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £122,497, and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level. The CFO insights service provides the Council with access to various data sources, which they decide how to use and make their own decisions about the delivery of services, therefore we do not believe there is an impact on the value for money conclusion.

Action plan – Council

We have identified a number of recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● **Medium**	**Balance sheet listings provided for audit** Balance sheet reconciliation working papers for audit procedures in respect of creditors and debtors were provided in separate documents for each general ledger account code, with some account codes having several documents forming part of the overall reconciliation of outstanding items at year-end. This format was unmanageable for the purpose of the associated audit procedures including analysis of the nature of material elements of credit and debit entries contributing to the full year-end population and selection of sample items for testing. These factors led to delays in completion of the associated audit procedures.	Management should ensure they produce listings of outstanding balances at a given date in a manageable format to enable them to understand the nature of overall line items in the balance sheet. These listings should be available for audit to enable the balance sheet debtors and creditors to be audited for existence and accuracy. **Management response** The external auditor was provided with 580 quality working papers at the start of the audit, in support of the draft financial statements. A similar number of additional documents were provided during the audit in response to detailed audit sampling and testing. The Council is a large and complex organisation where responsibility for financial management of external balances is devolved throughout all services and reconciled by many different officers; these reconciliations were all shared with Grant Thornton. The nature of debtor and creditor balances means that some transactional entries will be cleared over time e.g. where partial payments are received, or several invoices matched off against purchase orders. This is unavoidable as all individual entries will appear in detailed transactional listings. Full transaction listings are provided by Hampshire County Council (HCC) as part of the data analytics requested by external audit. These will include all transactions and not just those which remain outstanding at year-end. The Financial Accounting team also provided separate debtor and creditor listings which excluded many items cleared in-year. There will however always remain items that cannot be removed, for example local system data posted into the SAP GL using control totals where individual transactional data is held in the local system. Where any of these were selected for audit sampling, follow up samples were selected, and information provided promptly. This issue is common amongst other local authorities and a workaround was in place in previous years. The Chief Accountant will investigate the possibility of a workable solution with HCC as part of their finance reporting development and will work with Grant Thornton to identify the most efficient reporting solution.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Action plan – Council

Assessment	Issue and risk	Recommendations
● Medium	**Processes in place for sharing of data with external valuation specialists** 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. There is a risk that limitations on sharing of data could mean that management do not have sufficient information around the approach undertaken by their expert to be able to sufficiently challenge the underlying assumptions and methodology and hence gain assurance over the material accuracy of the valuations applied in the financial statements. The accounting entries and judgements within the financial statements rest solely with management, even where work is informed by a third party expert. It is important any commissioned experts provide sufficient clarity and detail over their work to enable management to challenge and own the accounting and valuation judgements used, and to enable them to be properly scrutinised by audit.	Management should implement an effective process for data sharing with their external property valuation specialists to ensure that they are able to adequately challenge the basis for the valuations included in the report and gain assurance over the material accuracy of reported figures. Management should ensure all data informing management judgements in the accounts is available for audit scrutiny. **Management response** The external audit of Property Plant and Equipment was conducted differently this year as an external review partner was engaged by Grant Thornton. As this was a direct competitor of the Council's contracted valuation firm, JLL was reluctant to share proprietary software. Once it was confirmed that this would remain with the external auditor and not be shared with their review partner, the information was shared. There were however further issues around the format and quality of information provided by the external valuers which caused additional delays. The assumptions and calculations which form the basis for the valuations are reviewed by lead officers in Property Services, who confirm they have gained the necessary assurances following detailed review of the various property portfolios held. The Director of Financial Management will liaise with the Director of Social Investment and Property to ensure these issues, and those experienced in previous years, are addressed in full and adequate resources are prioritised within Property Services to meet all closure of accounts and external audit needs.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan – Council

Assessment	Issue and risk	Recommendations
● Low	**Non Domestic Rates rateable value** During testing of the notes to the Collection Fund, we identified that the Non Domestic Rates rateable value disclosed had not been updated for the most recent information available from the Valuation Office Agency (VOA). Upon investigation, management identified that this was due to delays in updating the business rates system with the most recent VOA data. We are satisfied that this has not led to a material disclosure misstatement or error in the financial statements. However, we have reported this as an unadjusted disclosure error in Appendix C.	Management should ensure that the business rates system is updated in a timely manner to reflect information from the VOA when this is received. **Management response** Under normal circumstances, schedules issued by VOA before the end of the year would be updated and reconciled in the Council's business rates system. However, 2019/20 was an exception for two reasons; (1) the Council migrated to a new system during the latter half of the financial year and (2) business rates staff were diverted to deal with administration of the Government's COVID-19 expanded retail discounts and business grant scheme, announced in March 2020.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

DRAFT

Action plan – Pension Fund

We have identified a number of recommendations for the Pension Fund as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020/21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	**Budgeting monitoring and forecasting processes** 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. We also noted during our evaluation of management's going concern assessment that the process of detailed cash flow forecasting was new to the Fund and certain inputs such as sources of expenditure could be better informed by using more detailed information.	Management should develop a management accounting process and refine their detailed cash flow forecasting to enable better information to be used in making decisions around immediate and longer-term investment strategy. **Management response** Management will prepare detailed cash flow forecasts and updates for the Investment Committee on a quarterly basis. An annual budget will be presented to Pension Board from 2021/22 onwards.
● Medium	**Data quality of information held on Altair pensions administration system** 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, specifically: (1) Member benefits information did not include transfer-in details, total original deferred benefits, tranches of original data benefits and tranches of dependent pensions (2) Member details did not always include member contributions and length of service (3) Benefits from CARE scheme did not always include CARE data (4) Information held around contracting out did not include National Insurance contributions and earnings history both pre- and post- GMP ruling We are satisfied that the issues identified have not led to a material misstatement of the financial statements and reliance was not placed on control processes in place to draw conclusions from our audit procedures.	Management should action the recommendations set out in the internal audit report and implement adequate monitoring of the outsourced service to ensure that data quality is sufficient for the Fund's purposes. **Management response** RBKC will bring the pension administration service back in-house by 1 April 2021, to improve the overall quality of service delivery to members and to resolve areas where data quality is below requirements. RBKC management will work with Surrey County Council in the short term to ensure data quality improvements continue to be made.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Action plan – Pension Fund

Assessment	Issue and risk	Recommendations
● **Medium**	**Data retention on Altair pensions administration system** During our testing of starters and leavers from the Pension Fund, we identified a number of instances where correspondence with the members was not retained on the Altair pensions administration system in accordance with documented procedures.	Management should retain correspondence with Pension Fund members within the system to maintain a complete record and ensure that information held is up to date. **Management response** RBKC will raise this issue with Surrey County Council to determine what has caused some instances of member correspondence not to be retained on Altair, and will require Surrey to implement correcting measures.

Controls

- ● High – Significant effect on control system
- ● Medium – Effect on control system
- ● Low – Best practice

Follow up of prior year recommendations

We identified the following issues in the audit of the Council and Pension Fund's 2018/19 financial statements, which resulted in 7 recommendations being reported in our 2018/19 Audit Findings report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Adequacy of support for key accounting estimates** During our audit it was identified that many of the key accounting estimates in the financial statements, such as expected credit loss allowances and provision for business rates appeals, were calculated based on anecdotal evidence or percentages which had been applied in previous years. These inputs could not be supported with robust evidence or documentation and as such alternative additional audit procedures were required to gain assurance that the associated accounts balances were not materially misstated. It is important for management to ensure that estimates and judgements are based on relevant and up to date information so that management has assurance over the material accuracy of their financial statements. We recommended that management revisit each of the key accounting estimates in the financial statements and ensure that they are able to support the most significant inputs and assumptions into the calculation of such estimates with appropriate evidence and documentation.	**Management response** The Chief Accountant provided guidance on identifying and accounting for significant estimates. A presentation on ECL estimates was delivered at a Finance Officers Group (FOG) and officers responsible for calculating ECL were given training. Officers have been advised on appropriate rationale for estimations and examples of evidence required in support of estimates made. A review was conducted on the validity of having a low de minimis for revenue accruals (£5k) and this was raised to £10k for 2019/20 in response to CIPFA Code guidance to consider materiality when producing the financial statements. **Auditor assessment** As noted under 'Audit adjustments' at Appendix C, two key accounting estimates were revised during the course of the audit by management. Management should ensure that accounting estimates are formed on the best available information and that significant inputs and assumptions are clearly documented in advance of the closure of the financial statements. This recommendation will be carried forward to 2020/21.
✓	**Effectiveness of processes and procedures in place with departments outside of corporate finance** During the audit, significant difficulties and delays were encountered with obtaining supporting documentation for account balances or sampled items, where the source of this information was outside of the corporate finance team. In particular, documentation provided from the property team and the subsidiary organisation, Repairs Direct Ltd, was frequently delayed or insufficient. We recommended that management should establish effective and efficient processes for provision of audit evidence across the organisation.	**Management response** The importance of prioritising closure of accounts and statutory audit has been made clear to the Head of Finance for Housing and his team. Vacant posts have now been filled and Housing have achieved the agreed closing timetable dates. The message has been reinforced by the Chief Accountant and Director of Financial Management. A specific working party has been set up with lead representative from all finance areas. Training was provided on key topics and a closing and audit workshop took place in late February 2020. **Auditor assessment** The issues identified in the 2018/19 audit did not recur during 2019/20. Representatives of the audit team attended and participated in the closedown workshop during February 2020, which was attended by finance representatives from directorates. The recommendation is considered to be adequately addressed.

Assessment

✓ Action completed

X Not yet addressed

DRAFT

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Controls around payment of employee expenses** During our walkthrough of the processes and controls in place in relation to payroll expenditure, we identified that your HR team no longer have any access to or control over payroll processes, following the implementation of the new shared service arrangement with Hampshire County Council. In particular, employee expenses do not require approval and in one instance, this led to one employee erroneously receiving an allowance of £2,000 per month to which they had not been entitled. This was identified through a quarterly monitoring process and subsequently corrected, however there remains a risk that inadequate control of payroll expenditure could lead to inaccurate reporting of financial information. We recommended that management should ensure that despite now being involved in the shared service arrangement with Hampshire County Council, they retain sufficient oversight for the control processes in place.	**Management response** The Council has oversight in line with the intended procedures and an expenses report has been developed for use by RBKC Retained HR. The RBKC Payroll Manager has begun carrying out his own checks in addition to the checks performed by HCC. **Auditor assessment** No further issues were identified during the course of the 2019/20 audit in respect of employee expenses. As such, we consider this recommendation to have been adequately addressed.
✓	**No formal process to notify security administration of employee terminations** We were informed that there was no formal process to notify CIVICA system administrators of employee terminations and work status changes that impact access rights. In mitigation, the systems administrators rely on the process of user account review they perform regularly to identify dormant accounts and any inappropriate access granted and they disable access after the exercise. If there are no formal procedures and clear responsibilities established for handling notifying Security Administration Function on leavers, there is a risk that access to the system will not be disabled timeously resulting in ex-users who have left or transferred continuing to have access to the systems. We recommended that that HR should send automatic notifications to Security Administrators upon employee termination. This will help ensure that staff are removed promptly from the system. Alternatively, HR may compile list of monthly leavers and share it proactively with all system security administrators for action.	**Management response** Leave dates are transferred daily, via an interface from Hampshire County Council (HCC) to colleagues in IT. The following agreed procedures are applied to ensure the correct records are de-activated thus removing their access to the Council's networks and their User ID. • IT receive a future leave date for an employee in the nightly HR data file. At this point, IT keep a record of this data and the account which is joined to that SAP personnel number • The account expires 7 days after the end date and is then disabled 8 days after the end date. This is to enable IT to check to see whether a new SAP number has been joined to the same account (i.e. the person hasn't really left but has simply been given a new primary SAP personnel number). If not, then they have really left so IT mark the account as disabled. **Auditor assessment** No further issues were identified during the course of the 2019/20 audit. As such, we consider this recommendation to have been adequately addressed.

Assessment

✓	Action completed
X	Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**Insufficient details from SOC report to demonstrate that the controls are designed adequately for SAP** We were provided with an ISAE 3402 SOC Type II by Hampshire County Council (HCC) for the RBKC's hosted SAP system. We noted that there were insufficient details to demonstrate that the controls listed below were designed adequately: • Duties of security personnel do not include programming or IT management • User ids required to be unique • Passwords are encrypted • Unauthorised access attempts are logged, investigated and follow-up actions documented. There is a risk that management will not have complete assurance over the design adequacy of controls. We recommended that management confirm the arrangements that HCC have implemented on behalf of RBKC with respect to the following controls to ensure that: ➢ Duties of security personnel do not include programming or IT management. ➢ User ids are unique. ➢ Passwords are encrypted. ➢ Unauthorised access attempts are logged, investigated and follow-up actions documented.	**Auditor assessment** A type II ISAE 3402 report was provided to the audit team covering the 2019/20 year. However this did not cover the additional details suggested by the recommendation. As such, this recommendation will be carried forward to 2020/21 for implementation. **Management response** HCC have confirmed with RBKC that for the SAP accesses controlled by HCC: • Access provisioning is undertaken by a distinct team, with no access to SAP development or configuration tools; • SAP security roles are designed and maintained by a distinct team, who do not provision access to users in Production systems; • SAP User IDs are unique; • SAP passwords are encrypted; • Reports of unauthorised access attempts are investigated. These controls are in accordance with application password policies and it has been requested that this is more explicitly referenced in the 20/21 report.

Assessment

✓ Action completed

X Not yet addressed

Follow up of prior year recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**SAP Password Controls** Currently, the SAP password policy for external users requires a length of 7 characters that do not need to be changed. With regards to this last point, this chimes with HMG National Cyber Security Centre (NCSC) advice which has stated that changing a password regularly can encourage poor password practices such as simply adding numbers to old and common passwords. Instead NCSC do encourage longer passwords that can be based upon a memorable phrase with a mix of characters, numbers and special characters. For example, the NCSC quote '3redhousemonkeys27!' on their website to illustrate this approach. This password is 19 characters long and uses complex characters. Weak password controls could give rise to compromise of accounts through password guessing or cracking. We recommended that management review the adequacy of the current password criteria regarding length in light of NCSC advice to strengthen those passwords that are not changed by business users.	**Management response** A revised password policy was implemented prior to March 2019. **Auditor assessment** We consider this recommendation to have been adequately addressed.
✓	**Information Security (IS) related policies and procedures** We were provided with an IS Policy Statement and Personnel Commitment Statement. Both were at draft status and appeared incomplete. Incomplete security administration processes that are not formalised, may not be understood by, or communicated to those within the organisation responsible for observing and/or implementing them. We recommended that management ensure that all IS related policies and procedures should be formalised and distributed.	**Management response** Relevant IS policies were documented, approved and distributed prior to March 2019. **Auditor assessment** We consider this recommendation to have been adequately addressed.

Assessment

✓	Action completed
X	Not yet addressed

Audit adjustments – Council

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	CIES £‘000	Balance Sheet £’ 000	Impact on total net expenditure £’000
Expected credit losses from local taxation debtors During the audit process, management refined their estimation process for calculating expected credit losses in respect of local taxation debtors. Initially a significant increase in the expected credit loss had been recognised to take account of likely defaults arising from the economic impact of the Covid-19 pandemic on businesses and individuals within the Borough. After undertaking a benchmarking exercise with other local authorities, management concluded that their estimation of additional expected credit losses was too high. This resulted in overstatement of the expected credit losses in the draft financial statements which management amended for in the final version. The adjustment impacted upon a number of areas of the financial statements, notably: - debtors in the Balance Sheet and associated disclosure note increased by £5,372k - taxation and non-specific grant income in the CIES increased by £5,372k - increase in impairment for NNDR and Council Tax in the Collection Fund Account decreased by £7,543k and £2,383k respectively This amendment also had an impact on the cash flow statement, expenditure and funding analysis, debtors and creditors with other local authorities in the Balance Sheet and associated disclosure notes to account for the shares attributable to the GLA and Central Government. The figures shown to the right represent the impact on the Balance Sheet relating to the original change only.	(5,372)	5,372	(5,372)
NNDR appeals provision During the audit process, management refined their estimation process for calculating the provision for outstanding NNDR appeals. In 2019/20, management used an expert, Analyse Local, to assist with calculation of the provision for the first time. However in their workings, management had erroneously included a local adjustment of £8,562k, of which RBKC’s share was £4,111k. This resulted in an over-provision in the draft financial statements which management amended for in the final version. The adjustment impacted upon a number of areas of the financial statements, notably: - provisions in the Balance Sheet and associated disclosure note reduced by £4,111k - taxation and non-specific grant income in the CIES increased by £4,111k - decrease in provisions for appeals in the Collection Fund Account increased by £8,562k This amendment also had an impact on the cash flow statement, expenditure and funding analysis, debtors and creditors with other local authorities in the Balance Sheet and associated disclosure notes to account for the shares attributable to the GLA and Central Government. The figures shown to the right represent the impact on the Balance Sheet relating to the original change only.	(4,111)	4,111	(4,111)

Audit adjustments – Council

Detail	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000
General Fund Earmarked reserves			
As a result of the need to accrue for additional payments to the NNDR pool arising from the amendments outlined above, as well as reductions in accrued S31 grant income, taxation and non-specific grant income in the CIES decreased by £4,113k. The Council's useable reserves in the Balance Sheet also decreased by £4,113k from the initial draft of the financial statements. This was taken from the Budget Stabilisation Reserve in the 'Movement in earmarked reserves' disclosure note.	4,113	4,113	0
Collection Fund Adjustment Account			
As a result of the amendments outlined above and other immaterial amendments made between the first and final draft of the financial statements, the movement on the Collection Fund Adjustment Account ('Amount by which council tax and non domestic rates income credited to the CIES is different from council tax and non domestic rates income calculated for the year in accordance with statutory requirements') changed from an decrease of £8,772k to an increase of £711k. This results in a £9,483k increase in unusable reserves. This amendment also impacts upon the Movement in Reserves Statement and associated disclosure notes	0	(9,483)	0

Audit adjustments – Council

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure amendment	Detail	Adjusted?
Critical judgements in applying accounting policies	Management considered whether the issues disclosed in the first draft of the financial statements around future funding uncertainties and Covid-19 genuinely represented critical judgements made by management in applying accounting policies in accordance with the Code and IAS 1. Management concluded that these disclosures did not meet the relevant definition and removed the disclosure note.	✓
Assumptions made about the future and other major sources of estimation uncertainty	Additional detail was added to the disclosure note to enhance the disclosure around material valuation uncertainties relating to property assets arising from 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, to more fully reflect the nature and cause of the uncertainties reported by management's property valuation specialist in their valuation report. An additional disclosure was also added to reflect material valuation uncertainties relating to pooled property investments held by the Pension Fund as these impact upon the net defined benefit liability in the Council's balance sheet.	✓
Events after the balance sheet date; Provisions	As further outlined on page 19 of this report, in October 2020 the Royal Borough of Kingston-upon-Thames lost its appeal to the Court of Appeal over a High Court ruling relating to commission which had been charged by Councils, including RBKC, in respect of water charges collected from Council tenants on behalf of Thames Water. These payments will now need to be repaid to the affected tenants. Management have included disclosure of the outcome of the court case in Note 5 to the financial statements (Events after the reporting date) and in Note 25 (Provisions), explaining that although management recognise that the appropriate accounting treatment for these costs would be to recognise a provision (being that the court decision relates to a past event giving rise to a present obligation), they have elected not to adjust the 2019/20 financial statements in respect of this on the grounds that the adjustment is not material.	✓
Expenditure and funding analysis	It was identified through testing that the first column of the expenditure and funding analysis did not directly reconcile to the outturn for the year as reported to members, meaning that the disclosure did not meet the segmental reporting requirements of the CIPFA Code and IFRS 8. Additional columns were added to the disclosure note to show the outturn as reported to members, and further adjustments to reach the 'Net expenditure charged to the GF and HRA balances' as shown in the first draft. Additionally, it was identified that the 'Net expenditure charged to the GF and HRA balances' and 'Adjustments between funding and accounting basis' columns in the first draft of the financial statements were incorrectly analysed across directorates due to linkage errors in management's working papers. This led to reclassifications of £4,292k in the lines for the Resources and Customer Delivery directorate and the 'Other income and expenditure (GF)', and £867k in the lines for the Grenfell Recovery and Grenfell Corporate directorates in the final draft.	✓

Audit adjustments – Council

Disclosure amendment	Detail	Adjusted?
Expenditure and income analysed by nature; Grant income	It was identified through testing that £11,142k of income was misclassified in the disclosure note as 'Fees, charges and other income' whereas this related to revenue contributions and should have been classified as 'Government grants and contributions'. Management have amended for this misclassification in the final draft of the financial statements. The net impact on overall income recognised in the CIES is nil. This amendment also impacted on the Grant Income disclosure note which was amended to include this income. The Grant Income disclosure note in the first draft also erroneously omitted £3,710k of income which had been included in the 'Government grants and contributions' line in the 'Expenditure and income analysed by nature' note. This was adjusted for by management in the final draft of the financial statements. The total impact of these amendments on the Grant Income disclosure note was therefore £14,852k.	✓
Financial instruments	Two errors were identified through testing which management amended for in the updated draft of their financial statements: • the split between long-and short-term 'receivables held at amortised cost' was incorrect in the financial instruments disclosure note as a result of manual adjustments made to the balance sheet after closure of the general ledger, which had not been carried through to the workings for the disclosure note. This resulted in an adjustment of £2,916k moving balances from short-term to long-term in the disclosure note. • short-term creditors to the value of £10,700k were misclassified as non-financial instruments in the first draft of the disclosure note. This was due to erroneous omission of a number of general ledger codes from management's initial analysis of creditors classified as financial instruments.	✓
NDR Rateable Value	It was identified through testing that the NDR Rateable Value disclosed in Note 2 to the Collection Fund account was overstated by £2,621k. This was a result of management using Rateable Value reports from the Valuation Office Agency dated February 2020, rather than the most up to date information as at year-end. Management have elected not to amend this disclosure in the financial statements as they do not consider this to be material.	x
External audit costs	A number of amendments were made to the disclosure note to bring this in line with the agreed audit and non-audit fees payable to Grant Thornton UK LLP in respect of 2019/20, and actual audit and non-audit fees paid in respect of 2018/19.	✓
Cash flow statement	A misclassification of £2,073k was identified between operating activities and investing activities. This related to a capital grant applied during 2019/20 for which cash had been received in a prior year, which had been classified as an investing cash flow, but should have been classified as an adjustment to operating activities. Management amended for this in the final draft of the financial statements. This affects both the core statement and the associated disclosure notes. The net impact on overall decrease in cash and cash equivalents during the year is nil.	✓
Exit packages	During testing of the disclosure relating to exit packages included in the 'Offficer Remuneration' note to the financial statements, it was identified that a number of exit packages had been reported as 'other departures' whereas in fact these individuals had been part of compulsory redundancy programmes. This led to 19 exit packages being reclassified into the 'compulsory redundancies' column in the final draft of the financial statements. There was no impact on the value of these exit packages as reported in the note.	✓

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2018/19 financial statements were made during the audit.

Audit adjustments – Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2019/20 audit which have not been made within the final set of financial statements. The Audit and Transparency Committee is required to approve management's proposed treatment of all items recorded within the table below:

Detail	CIES (income – 2019/20) £‘000	CIES (expenditure – 2019/20) £‘000	CIES (income – 2020/21) £‘000	Reason for not adjusting
Fees, charges and other service income During sample testing of fees, charges and other service income, we noted the following error types: - In our testing of credit entries within the population, it was identified that four items selected spanned both the 2019/20 and 2020/21 accounting periods. However the portions of these transactions relating to 2020/21 had not been accrued for as deferred income, meaning that income recorded in 2019/20 was overstated, and income recorded in 2020/21 understated by the corresponding amount. This led to a factual misstatement of £44,202.07 in the sample of entries subject to testing.	4,994		(4,994)	These errors are extrapolations based on the errors identified in the sample of transactions subject to testing from within the whole population. As these are not factual errors, we would not expect management to adjust the financial statements to take account of these errors. Management do not consider the impact of the extrapolated errors to be material to the financial statements.
- In our testing of debit entries within the population, we identified that two items had been recorded as debit entries against income in fact related to expenditure and should have been recorded as such, meaning that income recorded in 2019/20 was understated and expenditure understated by the corresponding amount. This led to a factual misstatement of £10,602.00 in the sample of transactions subject to testing. Since the audit approach taken to testing of fees, charges and other service income was sampling rather than testing the whole population, it was not possible to quantify the factual errors arising from these issues. As such, the factual errors identified within the samples were extrapolated across the populations tested as shown in the columns to the right.	(690)	690		

Detail	CIES £‘000	Balance Sheet £’ 000	Impact on total net expenditure £’000	Reason for not adjusting
Provisions As outlined further on page 19 to this report, in October 2020 the Royal Borough of Kingston-upon-Thames lost its appeal to the Court of Appeal over a High Court ruling relating to commission which had been charged by Councils, including RBKC, in respect of water charges collected from Council tenants on behalf of Thames Water. These payments will now need to be repaid to the affected tenants. The appropriate accounting treatment for these costs would be to recognise a provision (being that the court decision relates to a past event giving rise to a present obligation).	2,646	(2,646)	(2,646)	Management did not consider this error to be material. Management have agreed to recognise the appropriate provision in the 2020/21 financial statements.

Audit adjustments – Council

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2018/19 financial statements, and details of how they impacted upon the 2019/20 financial statements.

Prior year unadjusted misstatements with nil impact on 2019/20 or future years	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Investment Properties It was noted during our comparison of the valuation report for Investment Properties provided by the external valuation specialist to the Fixed Asset Register that a number of properties had been double-counted in the financial statements. This overstates the value of Investment Properties in the balance sheet and the movement in the fair value of Investment Properties in the CIES	(4,493)	(4,493)	(4,493)	Management considered the error to be immaterial. Management made an adjustment to the 2019/20 opening balances to correct this error, meaning the impact on the 2019/20 closing balance is nil.
Grant income In our sample of taxation and non-specific grant income, we noted one grant relating to Adult Social Care which had been received in 2009/10 with no conditions attached, and incorrectly deferred on the balance sheet in each ensuing year. Management had identified this error and written out the deferred grant income to the CIES in 2018/19. The classification of the income was also incorrect due to this being related to a service rather than non-specific income. The impact was to understate grant income in 2009/10 and overstate grant income in 2018/19.	(3,276)		(3,276)	Management considered the error to be immaterial, hence did not undertake a prior period adjustment and restate their prior period balance sheets from 2009/10 onwards to amend for this error. Since the income was written out to the CIES in 2018/19, the impact on the 2019/20 financial statements is nil.

Prior year unadjusted misstatements impacting on 2019/20 or future years	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Capital additions Management were unable to provide supporting evidence for one item of capital expenditure in our sample. This expenditure was incurred with the subsidiary company, Repairs Direct Limited, which ceased to operate from April 2019 and as such the members of staff responsible for maintaining the supporting evidence had since left the Council. The value of the potentially erroneous sample item was £210k, with the extrapolated impact across the population of capital expenditure being £1,572k.		(1,572)		Management did not consider this to be an error as the capital expenditure was valid. This error is therefore carried forward.

Audit adjustments – Pension Fund

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted and unadjusted misstatements

At the time of writing, no adjustments impacting on the Fund Account or Net Assets Statement have been identified through our audit procedures. This position will be updated to the date of issuing our auditor's report.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which management has agreed to amend in the final set of financial statements.

Disclosure amendment	Detail	Adjusted?
Purchases and sales of equities, pooled investments and private equity/infrastructure	We identified through our testing that purchases for equities, pooled investments and private equity / infrastructure needed to be brought in line with the Custodian report resulting in a total adjustment of £2,491k. Furthermore, sales for equities, pooled investments and private equity / infrastructure needed to be grossed up to take account of management fees resulting in a total adjustment of £2,492k. The net impact on the change in market value and thus the bottom line of these adjustments is nil.	✓
Sources of estimation uncertainty	Management enhanced the disclosures in the financial statements around sources of estimation uncertainty to make specific reference to material valuation uncertainties around pooled property investments, 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 also amended this disclosure to include additional information relating to the year-end value of actuarial present value of promised retirement benefits, and updated the sensitivity disclosure for private equity investments to be more reflective of actual fluctuations in market value of these investments.	✓
Critical judgements in applying accounting policies	The two disclosures in the 'Critical judgements' disclosure do not meet the definition of critical judgements under IAS 1. In both instances, - it is not clear what the judgement made is, what the alternatives are and what the impact is - there is no information around how the judgement was taken and what information was considered - there is no reference to an accounting policy or standard Management do not wish to amend this disclosure to provide further information. This does not have a material impact on the financial statements.	x
Funding arrangements	Information relating to the latest triennial valuation as at 31 March 2019 had been omitted from the initial draft of the disclosure note relating to funding arrangements as this did not directly impact upon the contribution rates applied for the 2019/20 reporting period. Additional narrative was included to explain the funding position of the Fund as at 31 March 2020 as a result of the 31 March 2019 triennial valuation.	✓

A number of other minor presentational amendments including adjustment of prior period comparatives to match the audited 2018/19 financial statements were made during the audit.

Impact of prior year unadjusted misstatements

No unadjusted misstatements relating to the Pension Fund were identified during the 2018/19 audit.

Fees

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

Audit fees	Proposed fee	Final fee
Council Audit	122,497	122,497
Pension Fund Audit	25,000	25,000
Total audit fees (excluding VAT)	**£147,497**	**£147,497**

The fees reconcile to the financial statements.

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services:		
• Housing benefit subsidy claim	20,000	TBC
• Pooling housing capital receipts grant	5,000	TBC
• Teachers' pensions end of year certificate	5,000	TBC
Non-Audit Services:		
• CFO Insights subscription	12,500	12,500
• Adult learning subcontracting controls assurance	6,000	6,000
Total non- audit fees (excluding VAT)	**£48,500**	**TBC**

At the date of issue of this report, the audit-related services stated above have not yet been completed. Final fees in respect of these services will be confirmed upon completion of this work.

Audit opinion – Council

We anticipate we will provide the Council with an unmodified audit report

Independent auditor's report to the members of the Royal Borough of Kensington and Chelsea

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Statement and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Notes to the Core Financial Statements, Notes to the Housing Revenue Account Statement and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of

Audit opinion – Council

accounting in the preparation of the financial statements is not appropriate; or

- the Executive Director of Resources has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings and property investments

We draw attention to Note 3 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 3 to the financial statements, the outbreak of the COVID-19 virus has had an impact on market activity in the real estate sector, and as such the Council's valuers feel that less weight may be attached to previous market evidence for comparison purposes, to inform opinions of value. The valuers are faced with an unprecedented set of circumstances on which to base a judgement and so values they have provided are reported on the basis of a "material valuation uncertainty" as per VPS 3 and VPGA 10 of the RICS Red Book Global. This declaration means that, in the current circumstances, less certainty, and a higher degree of caution, should be placed on the valuation of these assets than would otherwise be the case. Likewise in respect of the net pension liability, the current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the financial statements and our auditor's report thereon and our auditor's report on the pension fund financial statements. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we

Audit opinion – Council

are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 32, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's

Audit opinion – Council

report.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed our work to give our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources. We are satisfied that this matter does not have a material effect on the financial statements for the year ended 31 March 2020.

In addition, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2020. As the Authority has not prepared the Pension Fund Annual Report at the time of this report we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

Audit opinion – Pension Fund

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the members of the Royal Borough of Kensington and Chelsea on the pension fund financial statements of Kensington and Chelsea Pension Fund

Opinion

We have audited the financial statements of Kensington and Chelsea Pension Fund (the 'pension fund') administered by the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

The impact of macro-economic uncertainties on our audit

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Executive Director of Resources and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Executive Director of Resources has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

Audit opinion – Pension Fund

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

Emphasis of Matter - effects of Covid-19 on the valuation of property investments

We draw attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 4 to the financial statements, the ongoing impact of the COVID-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and private equity allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. For pooled property, professional valuers have not been actively valuing many similar sized assets in the market due to the lockdown environment. As such, values have been rolled over from February 2020 with an adjustment and may be inaccurate to the true 31 March 2020 position.

The current response to COVID-19 means pooled property valuations are reported on the basis of 'material valuation uncertainty' as set out in VPGA 10 of the RICS Valuation Global Standards. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.

Our opinion is not modified in respect of this matter.

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is

Audit opinion – Pension Fund

- contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters**.**

Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 27, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Executive Director of Resources is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit and Transparency Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

[Signature]

Paul Grady, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

Management letter of representation – Council

Grant Thornton UK LLP

110 Bishopsgate

London

EC2N 4AY

[Date] October 2020

Dear Sirs

Royal Borough of Kensington and Chelsea
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of the Royal Borough of Kensington and Chelsea for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Council's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Council and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Council has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. We confirm that we are satisfied that the actuarial assumptions underlying the valuation of pension scheme assets and liabilities for IAS19 Employee Benefits disclosures are consistent with our knowledge. We confirm that all settlements and curtailments have been identified and properly accounted for. We also confirm that all significant post-employment benefits have been identified and properly accounted for.

vii. Except as disclosed in the financial statements:

  a. there are no unrecorded liabilities, actual or contingent

  b. none of the assets of the Council has been assigned, pledged or mortgaged

  c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

viii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

ix. All events subsequent to the date of the financial statements and for which

Management letter of representation – Council

International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

x. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

xi. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Council and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xii. Actual or possible litigation and claims, in particular those arising from the Grenfell fire, have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards..

xiii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiv. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Council's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Council's needs. We believe that no further disclosures relating to the Council's ability to continue as a going concern need to be made in the financial statements

xv. We have reviewed the Valuer's Report that has included the “material valuation uncertainty” over the valuation of the Council's Property Plant and Equipment, and Investment Properties caused by the Covid 19 pandemic. The Council has appropriately reflected the disclosure in the Valuer's report within the ‘Assumptions made about the future and other major sources of estimation uncertainty' note in the financial statements.

xvi. We have reviewed the Fund managers reports that have included “material valuation uncertainty” over the valuation of pension fund investments in pooled property. The Council has appropriately reflected the disclosures within the ‘Assumptions made about the future and other major sources of estimation uncertainty' note in the financial statements

Information Provided

xvii. We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

b. additional information that you have requested from us for the purpose of your audit; and

c. access to persons within the Council via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xviii. We have communicated to you all deficiencies in internal control of which management is aware.

xix. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xx. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xxi. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Council, and involves:

a. management;

b. employees who have significant roles in internal control; or

c. others where the fraud could have a material effect on the financial statements.

Management letter of representation – Council

xxii. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxiii. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxiv. We have disclosed to you the identity of the Council's related parties and all the related party relationships and transactions of which we are aware.

xxv. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Annual Governance Statement

xxvi. We are satisfied that the Annual Governance Statement (AGS) fairly reflects the Council's risk assurance and governance framework and we confirm that we are not aware of any significant risks that are not disclosed within the AGS.

Narrative Report

xxvii. The disclosures within the Narrative Report fairly reflect our understanding of the Council's financial and operating performance over the period covered by the financial statements.

Approval

The approval of this letter of representation was minuted by the Council’s Audit and Transparency Committee at its meeting on [date].

Yours faithfully

DRAFT

Management letter of representation – Pension Fund

Grant Thornton UK LLP

110 Bishopsgate

London
EC2N 4AY

[Date] October 2020

Dear Sirs

Kensington and Chelsea Pension Fund
Financial Statements for the year ended 31 March 2020

This representation letter is provided in connection with the audit of the financial statements of Kensington and Chelsea Pension Fund for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements are presented fairly, in all material respects in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and applicable law.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i. We have fulfilled our responsibilities for the preparation of the Fund's financial statements in accordance with International Financial Reporting Standards and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ("the Code"); in particular the financial statements are fairly presented in accordance therewith.

ii. We have complied with the requirements of all statutory directions affecting the Fund and these matters have been appropriately reflected and disclosed in the financial statements.

iii. The Fund has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of any regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.

iv. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

v. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable. We are satisfied that the material judgements used in the preparation of the financial statements are soundly based, in accordance with the Code and adequately disclosed in the financial statements.

vi. Except as disclosed in the financial statements:

    a. there are no unrecorded liabilities, actual or contingent

    b. none of the assets of the Fund has been assigned, pledged or mortgaged

    c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

vii. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards and the Code.

viii. All events subsequent to the date of the financial statements and for which International Financial Reporting Standards and the Code require adjustment or disclosure have been adjusted or disclosed.

ix. We have considered the adjusted misstatements, and misclassification and disclosures changes schedules included in your Audit Findings Report. The financial statements have been amended for these misstatements, misclassifications and disclosure changes and are free of material misstatements, including omissions.

Management letter of representation – Pension Fund

x. We have considered the unadjusted misstatements schedule included in your Audit Findings Report and attached. We have not adjusted the financial statements for these misstatements brought to our attention as they are immaterial to the results of the Pension Fund and its financial position at the year-end. The financial statements are free of material misstatements, including omissions.

xi. Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of International Financial Reporting Standards.

xii. We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

xiii. We have updated our going concern assessment and cashflow forecasts in light of the Covid-19 pandemic. We continue to believe that the Fund’s financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Fund’s needs. We believe that no further disclosures relating to the Fund's ability to continue as a going concern need to be made in the financial statements.

xiv. We have reviewed the Fund managers reports that have included “material valuation uncertainty” over the valuation of pension fund investments in pooled property. The Fund has appropriately reflected the disclosures within the ‘Assumptions made about the future and other major sources of estimation uncertainty’ note in the financial statements.

Information Provided

xv. We have provided you with:

  a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

  b. additional information that you have requested from us for the purpose of your audit; and

  c. access to persons within the Fund via remote arrangements, in compliance with the nationally specified social distancing requirements established by the government in response to the Covid-19 pandemic. from whom you determined it necessary to obtain audit evidence.

xvi. We have communicated to you all deficiencies in internal control of which management is aware.

xvii. All transactions have been recorded in the accounting records and are reflected in the financial statements.

xviii. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xix. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Fund, and involves:

  a. management;

  b. employees who have significant roles in internal control; or

  c. others where the fraud could have a material effect on the financial statements.

xx. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

xxi. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

xxii. There have been no communications with The Pensions Regulator or other regulatory bodies during the year or subsequently concerning matters of non-compliance with any legal duty.

xxi. We are not aware of any reports having been made to The Pensions Regulator by any of our advisors.

xxii. We have disclosed to you the identity of the Fund's related parties and all the related party relationships and transactions of which we are aware.

xxiii. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Management letter of representation – Pension Fund

Approval

The approval of this letter of representation was minuted by the Audit and Transparency Committee at its meeting on [date].

Yours faithfully

grantthornton.co.uk