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

Year ended 31 March 2021

September 2021

Contents

Your key Grant Thornton team members are:

Paul Grady
Key Audit Partner
E paul.d.grady@uk.gt.com

Ellen Millington
Senior Manager
E ellen.millington@uk.gt.com

Francesca Drew
Assistant Manager – Council
E francesca.e.drew@uk.gt.com

Louis Cabral
Assistant Manager – Pension Fund
E louis.as.cabral@uk.gt.com

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

This Audit Findings 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. Its contents have been discussed with management.

Paul Grady
For Grant Thornton UK LLP

September 2021

1. 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 2021 for those charged with governance.

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 the 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 5 to 27. We have identified 2 adjustments to the financial statements that have resulted in a £5.1m adjustment to the Council's Comprehensive Income and Expenditure Statement. Both adjustments related to the recognition of additional income during the year. Of the £5.1m, £1.5m represented an increase to the Council's General Fund balance and £3.6m represented an increase to the Council's Capital Grants Unapplied reserve. We have not identified any adjustments to the Pension Fund financial statements.

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.

At the time of writing, our audit work is substantially complete, with the following matters remaining outstanding;

- senior manager and engagement leader final quality review of the audit file and satisfactory resolution of any residual queries;
- receipt of management representation letter – see appendix F; and
- receipt of the final approved set of financial statements.

There are no matters of which we are aware, as at the date of writing, that would require modification of our audit opinions (Appendix E) or material changes to the financial statements. This is subject to satisfactory resolution of the items listed above.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion for the Council will be unmodified, with an emphasis of matter paragraph drawing attention to the disclosure in Note 32 of the contingent liability relating to the Fire tragedy. This does not constitute a qualification of the audit opinion.

Our anticipated audit report opinion for the Pension Fund will be unmodified.

1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

Our Value for Money procedures are in progress. Our detailed commentary will be set out in the separate Auditor's Annual Report. This will be communicated in advance of the National Audit Office's revised deadline which has been set at three months after the date of the audit opinion on the financial statements.

We are satisfied from the procedures undertaken to date that no matters have been identified which would impact our proposed opinion on the financial statements.

To date, we have not identified any significant weaknesses in arrangements.

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 will be unable to certify the closure of the audit until such a time as the audit closure certificates in respect of the years ended 31 March 2017, 31 March 2018, 31 March 2019 and 31 March 2020 have been issued. At the time of writing, these audit certificates remain open as the value for money conclusions in respect of these years have not been issued. We cannot issue our value for money conclusions for 2018/19 and 2019/20 until the Council's predecessor auditors issue their conclusions in respect of 2016/17 and 2017/18.

Significant Matters

The financial statements were published and a full suite of supporting working papers was provided to the audit team on 28 May 2021, which was two months ahead of the statutory deadline for publication.

The quality of working papers provided by the finance team to the audit team was high, with management having improved processes in response to recommendations raised during the 2019/20 audit.

Some challenges were encountered with obtaining supporting documentation required for the audit from teams outside of finance, in particular from HR and from the pensions administration team, due to capacity issues arising from the transition to an in-house arrangement from the previously outsourced service with Surrey County Council. Relevant recommendations for improvement have been identified in the Action Plan at Appendix A to this report.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff amidst the pressure they were under during these unprecedented times.

2. Financial Statements

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 environment, 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 altered our Audit Plan, as communicated in March 2021, to remove the significant risk identified relating to the completeness and accuracy of data transferred to the new pensions administration system. This was no longer considered to be a significant risk as upon further investigation, it was confirmed that the new administration system had not been used in the preparation of the 2020/21 financial statements. As such, this risk will be relevant for 2021/22 onwards and we will reconsider the risk assessment as part of the planning process for the following year's audit.

Conclusion

Our audit of the Council and Pension Fund's financial statements is nearing completion.. Subject to the outstanding matters set out on page 3 being resolved, we anticipate issuing unqualified audit opinions following the approval of the financial statements at the Audit and Transparency Committee meeting on 28 September 2021, as detailed in Appendix E.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by management, the finance team and other staff throughout the audit process.

2. 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, materiality levels remain the same as reported in our Audit Plan in March 2021.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2021 when compared to those held as at 31 March 2020.

We detail in the table our determination of materiality for the Royal Borough of Kensington and Chelsea and Kensington and Chelsea Pension Fund.

	Council Amount – planning and final (£)	Pension Fund Amount – planning (£)	Pension Fund Amount – final (£)
Materiality for the financial statements	11,000,000	11,000,000	14,500,000
Performance materiality	7,700,000	8,250,000	10,875,000
Trivial matters	550,000	550,000	725,000

2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Risk relates to	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. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including 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. There have been no changes to our assessment as reported in the Audit Plan.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
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. **The council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.** **We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.**	Council and Pension Fund	We have: • Evaluated the design effectiveness of management controls over journals. • Analysed the journals listing and determine the criteria for selecting high risk unusual journals. • Tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration. • Gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence. • Evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. 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 testing of journal entries any material misstatements or indications of management override of controls. However, we do not test every journal and there may be undetected fraud or error. This control deficiency applies to both the Council and Pension Fund. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity. We have raised a control recommendation for improvement in the Action Plan at Appendix A. There are no further findings in respect of this risk which we are required to report to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of land and buildings The Council revalues its land and buildings, Heritage Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets/Investment properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion) and the sensitivity of this estimate to changes in key assumptions. Management has engaged the services of a valuer to estimate the current value as at 31 March 2021. We therefore identified valuation of land and buildings, heritage assets and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.	Council	We have: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Engaged our own valuer to assess the instructions to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation. • Tested revaluations made during the year to see if they had been input correctly into the Council's asset register and financial statements. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. Our procedures in this area are now complete and no issues have been identified which require reporting to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of the 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 (£84 million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Authority's pension fund net liability as a significant risk.	Council	We have: • Updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation. • Assessed the reasonableness of the actuary's assumptions and calculations in-line with the relevant standards, including their consideration of the ongoing impact of the McCloud, Goodwin and Guaranteed Minimum Pension cases. • Assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability. • Tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary. • Undertaken 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. Our audit procedures in this area now complete. No findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Valuation of Level 3 Investments (Annual revaluation) and direct property investments The Pension 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 (£71 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 2021. The Pension Fund has also invested in directly held property. This valuation also represents a significant estimate by management. Management will need to ensure that these assets are subject to a 31 March 2021 valuation.	Pension Fund	We have: • Evaluated management's processes for valuing Level 3 investments. • Reviewed 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 were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2020 with reference to known movements in the intervening period. • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. • Evaluated management's processes and assumptions for the calculation of the estimated direct property valuation, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met. • Engaged our own valuer to assess the instructions to the Pension Fund direct property valuer, the valuer's report and the assumptions that underpin the valuation. No findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Incomplete or inaccurate financial information transferred to the new pensions administration system – risk de-escalated The Council decided in February 2020 to bring pension administration back in-house from Surrey County Council on 1 April 2021. This move will result in transitioning data from Surrey County's pension fund administration system to the Council's 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 and Pension Fund	In response to this risk, we reported in our audit plan that we planned to: • Complete an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new pensions administration system. • Map the closing balances from Surrey County's pension administration system to the opening balance position in the new pensions administration system to ensure accuracy and completeness of the financial information. • Sample test 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. During the risk assessment process, it transpired that the data from the new pensions administration system would not be used in the closedown process for the 2020/21 financial statements. As such, the transfer from the old system to the new system bore no risk of impacting on the 2020/21 accounts. We therefore determined that this was no longer considered a significant risk of material misstatement in the financial statements 2020/21 for the Council or Pension Fund.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Completeness of non-pay operating expenditure Non-pay expenditure on goods and services represents a significant percentage (62%) of the Council's gross operating expenditure. Management uses judgement to estimate accruals of un-invoiced costs. We identified completeness of non-pay expenditure and associated short-term creditors as a risk requiring particular audit attention.	Council	We have: • Evaluated the Council's accounting policy for recognition of non-pay expenditure for appropriateness, including the use of de minimis level set. • Gained an understanding of the Council's system for accounting for non-pay expenditure and evaluate the design of the associated controls. • Obtained and test a listing of non-pay payments made in April and May 2020 to ensure that they had been charged to the appropriate year. In our testing of invoices processed during April and May 2021, we identified three items which related to expenditure which had been incurred in 2020/21 but had not been accrued for in the financial statements. Additional audit procedures were undertaken and we are satisfied that each individual instance of error was isolated, and that this issue has not led to a material error in the financial statements. However, the high error rate is indicative of a deficiency in management's control processes around identifying all items to be accrued for at the year-end. We have raised a control recommendation in this regard within the Action Plan at Appendix A to this report. No other issues were identified in respect of this risk which require reporting to those charged with governance.
Provisions and contingent liabilities In 2019/20, the Council disclosed a contingent liability in respect of potential future payments which you may need to make as a result of the public inquiry into the Fire tragedy and any civil claims which may be lodged against the Council. The Council made the judgement that at this time, it was not possible to estimate the value or likelihood of any potential liability and, as such, a provision could not be recognised. We identified the completeness of short- and long-term provisions recognised and disclosure of contingent liabilities as a risk requiring particular audit attention.	Council	We have: • Reviewed disclosure and classification of short- and long-term provisions and assessed whether they meet the requirements of the CIPFA Code and IAS 37. • Discussed with the Council's legal advisors, reviewed committee minutes and other sources of information to gain assurance over the completeness of provisions recognised. Our audit procedures in this area are now complete. We are satisfied from procedures undertaken that provisions recognised and contingent liabilities disclosed in the financial statements are materially complete. As in previous years, management had not recognised any liabilities in the draft financial statements as a result of the Fire tragedy, on the basis that the outflow of economic benefits, as a result of the criminal investigation or any civil claims, could not at the reporting date be considered 'probable', which is required for the recognition of a provision under the applicable accounting framework. This is because the inquiry and investigations into the tragedy are ongoing and yet to conclude in terms of liability and apportionment of liability. In addition, the value of any potential civil or criminal liability could not be quantified, as financial quantum was yet to be presented in the civil claims process and the criminal investigation is yet to conclude. Instead, a contingent liability, being a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, had been disclosed in Note 32 to the financial statements. Upon review, management added additional narrative to the 'Critical judgements in applying accounting policies' disclosure note around management's judgement that it was not possible to estimate the impact of any civil or criminal liabilities. We are satisfied from audit procedures undertaken that management's judgement is appropriate. We have referred to management's disclosure of a contingent liability in an emphasis of matter paragraph in our audit opinion, to draw the attention of users of the financial statements to the information contained within it. This does not constitute a qualification of the audit opinion. No further material issues were identified in our response to this risk that require reporting to those charged with governance.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Actuarial present value of promised retirement benefits The Pension Fund discloses the Actuarial Present Value of Promised Retirement Benefits within its Notes to the Accounts. This represents a significant estimate in the financial statements. The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£1.2 billion) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Pension Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.	Pension Fund	We have: • Updated our understanding of the processes and controls put in place by management to ensure that the Fund's Actuarial Present Value of Promised Retirement Benefits is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work. • Assessed the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation. • Assessed the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability. • Tested the consistency of disclosures with the actuarial report from the actuary. • Undertaken 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. No findings have been identified in response to this risk which are required to be reported to those charged with governance.
Valuation of level 2 investments While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as a risk of material misstatement.	Pension Fund	We have: • Gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • Reviewed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances. • Independently requested year-end confirmations from investment managers and custodian. • Reviewed investment manager service auditor report on design effectiveness of internal controls. No findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements - Other risks

Risks identified in our Audit Plan	Risk relates to	Commentary
Contributions Contributions from employers and employees represent a significant percentage of the Fund's revenue. We therefore identified the completeness and accuracy of the transfer of contributions as a risk of material misstatement.	Pension Fund	We have: • Evaluated the Fund's accounting policy for recognition of contributions for appropriateness. • Gained an understanding of the Fund's system for accounting for contribution income and evaluated the design effectiveness of the associated controls. • Agreed changes in Admitted/Scheduled bodies to supporting documentation and agreed total contributions for each employer to employer contributions reports. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in member body payrolls and the number of contributing employees to ensure that any unusual trends were satisfactorily explained. No findings have been identified in response to this risk which are required to be reported to those charged with governance.
Pension benefits payable Pension benefits payable represents a significant percentage of the Fund's expenditure. We therefore identified the completeness, accuracy and occurrence of the transfer of pension benefits payable as a risk of material misstatement.	Pension Fund	We have: • Evaluated the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness. • Gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls. • Tested a sample of lump sums and associated individual pensions in payment by reference to member files. • Tested relevant member data to gain assurance over management information to support a predictive analytical review with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends were satisfactorily explained. In our testing of pension benefits payable, we identified that in respect of pensions benefit calculations, where a pensioner had retired part way through a month, the pro-rating of the recurring pension benefit payment amount had not been consistently applied. We are satisfied from further procedures undertaken that this has not caused a material error in the financial statements. However, we have raised a control recommendation in this regard as part of our follow up to prior year recommendations at Appendix B. No further findings have been identified in response to this risk which are required to be reported to those charged with governance.

2. Financial Statements – key judgements and estimates – Council

This section provides commentary on key estimates and judgements within the Council's financial statements, in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: Other Land and Buildings £520.5m Investment Properties £250.6m	Other land and buildings which were revalued during the year comprise £302.6m 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 (£212.6m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The Council engaged Jones Lang LaSalle to complete the valuation of properties as at 31 March 2021. 99% of total other land and buildings assets were revalued during 2020/21. The total year end valuation of land and buildings was £520.5m, a net decrease of £30.2m from 2019/20 (£550.7m). This net decrease 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. • 99% of properties have been valued as at 31 March 2021. • 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.	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Net pension liability – £110.1m	The Council's total net pension liability at 31 March 2021 is £110.1m (PY £83.6m) comprising the Kensington and Chelsea Pension Fund and the London Pension Funds Authority 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. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £26.5m net actuarial loss during 2020/21.	See audit comments below	Light purple

Audit Comments

- 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 2020/21 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:

Assumption	Actuary Value (RBKC Fund)	Actuary Value (LPFA Fund)	PwC range	Assessment (RBKC Fund)	Assessment (LPFA Fund)
Discount rate	2.00%	1.90%	1.95% - 2.05%		
Pension increase rate	2.85%	2.85%	2.80% - 2.85%		
Salary growth	3.85%	3.85%	1.00% above CPI		
Life expectancy – Males currently aged 45 / 65	22.9 / 21.6	23.1 / 21.7	21.9 – 24.4 / 20.5 – 23.1		
Life expectancy – Females currently aged 45 / 65	25.7 / 24.3	25.9 / 24.0	24.8 – 26.5 / 23.3 – 25.0		

- We are satisfied that the use of a discount rate for liabilities relating to the LPFA Fund outside of the expected range from PwC reflects specific circumstances for the relevant fund members, based on their demographic profile. We are satisfied that this has not led to a material error in the financial statements.
- 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 2019/20 to the valuation method.
- Our work confirms that the decrease in the IAS 19 estimate is reasonable.

Assessment

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

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £19.3m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2020/21, 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 relative stability in the volume of outstanding appeals, the provision in the financial statements increased by £0.2m in 2019/20.	• 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.	Light purple
Land and Buildings – Council Housing - £817.9m	The Council owns 6,987 dwellings (6,691 in the Housing Revenue Account and 296 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 engaged Jones Lang LaSalle (JLL) to complete the valuation of these properties as at 31 March 2021. The year end valuation of Council Housing was £817.9m, a net increase of £33.6m from 2018/19 (£784.3m).	• 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 2021, 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	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation - £424.1m	The government has provided a range of new financial support packages to the Council and all local authorities throughout the Covid-19 pandemic. These included additional funding to support the cost of services or offset other income losses, and also grant packages to be paid out to support local businesses. The Council has needed to consider the nature and terms of each of the various Covid-19 measures in order to determine the appropriate accounting treatment, including whether there was income or expenditure to be recognised in the Comprehensive Income and Expenditure Statement (CIES) for the year. In doing so, management has considered the requirements of section 2.3 of the Code of Practice on Local Authority Accounting which relates to accounting for government grants, as well as section 2.6 which describes how the accounting treatment for transactions within an authority's financial statements shall have regard to the general principle of whether the authority is acting as a principal or agent, in accordance with IFRS 15. The three main considerations made by management in forming their assessment were: • Where funding is to be transferred to third parties, whether the Council was acting as a principal or agent, and therefore whether income should be credited to the CIES or whether the associated cash should be recognised as a creditor or debtor on the Balance Sheet • Whether there were any conditions outstanding at year-end, and therefore whether the grant should be recognised as income or a receipt in advance • Whether the grant was awarded to support expenditure on specific services or was in the form of an un-ringfenced government grant – and therefore whether associated income should be credited to the net cost of services or taxation and non-specific grant income within the CIES	• We are satisfied that management has effectively evaluated whether the Council is acting as the principal or agent for each relevant support scheme, which has determined whether any income is recognised. • Schemes for which the Council has recognised income include the Business Rates Relief S31 Grant (£68.4m), Covid-19 Local Authority Support Grant (£10.4m), Covid-19 Income Loss Compensation (£10.0m), Additional Restrictions Grant (£4.5m), Local Authority Discretionary Grant Fund (£2.2m), We are satisfied from review that this treatment is consistent with the nature and terms of the relevant schemes. • We have evaluated the completeness and accuracy of the underlying information used to determine whether there were conditions outstanding (as distinct from restrictions) at the year-end that would determine whether the grant should be recognised as a receipt in advance or income, and concluded that this was appropriate. • We have considered management's assessment, for grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. We are satisfied that the presentation in the CIES is appropriate. • Management's disclosure of the Council's accounting treatment for grant income in both the financial statements and Narrative Report is sufficient.	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates – Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.5m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. For assets acquired to rehouse families affected by the Fire tragedy, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, the Council's policy is to charge nil MRP as long as these properties are held for this purpose, on the basis that this assessment is consistent with the treatment of comparable HRA assets. The year end MRP charge was £1,542k, a net increase of £291k from 2019/20.	• the MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance • the Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance • the Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2020 • there have been no changes to the Council's MRP policy since 2019/20 • the level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year. However, the Council's decision not to charge MRP against borrowing incurred for the acquisition of housing assets held in the General Fund contravenes the statutory guidance as, for these assets, no compensatory charge is made from the HRA to the Major Repairs Reserve. Additional audit procedures were undertaken and we are satisfied that the impact of this issue in the current year, and cumulatively since this policy was implemented, is not material to the financial statements. However, we have raised a control recommendation to management as detailed under the Action Plan at Appendix A, for the attention of those charged with governance, as over the course of several years, depending on the level of capital expenditure on the General Fund housing assets financed through borrowing, there remains a risk that this could lead to a significant cumulative underspend on MRP and leave the assets effectively unfinanced, impacting the Council's outturn and level of reserves in future years.	Blue

Assessment

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

2. Financial Statements – key judgements and estimates – Pension Fund

This section provides commentary on key estimates and judgements in the Pension Fund financial statements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Private Equity Investments – £83.5m	The Pension Fund has investments in private equity funds that in total are valued on the net assets statement as at 31 March 2021 at £83.5m. 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 2020 which are audited. The value of the investment has increased by £12.9m in 2019/20, due to a combination of purchases, sales 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 2020 • 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	Light purple
Level 3 Directly-Held Property Investments – £41.9m	The Pension Fund holds investments in directly-held property to the value of £41.9m. This comprises three commercial properties which are rented out to businesses, one of which was held at 31 March 2020 and two of which were acquired during the year. The Pension Fund engaged Jones Lang LaSalle (JLL) to complete the valuation of these properties as at 31 March 2021, on a fair value basis.	• We have assessed management's expert, JLL, to be competent capable and objective. • The valuer has correctly prepared the valuation using fair value methodology. • 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. • We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements.	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates – Pension Fund

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £1,337.6m	The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2021 at £1,337.6m. 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 investments have increased by £502.3m in 2020/21, largely driven by 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	*Light purple*

Assessment

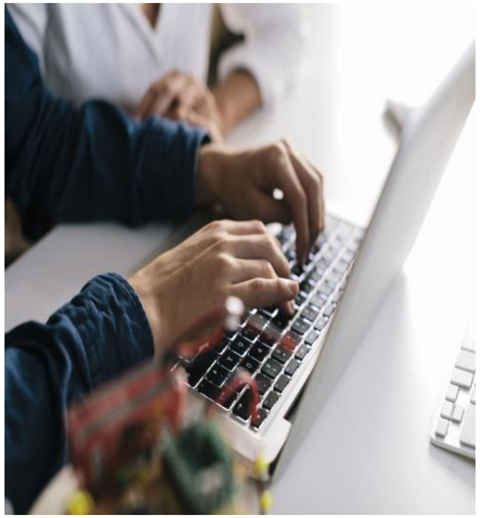
- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider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

2. Financial Statements - other communication requirements

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	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 significant incidents in the period and no other 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	A letter of representation has been requested from the Council, including specific representations relating to issues identified during the audit, which is appended and included in the Audit and Transparency Committee papers. Specific representations have been requested from management in respect of the significant assumptions used in making accounting estimates for property valuations, valuation of the net defined benefit liability, provisions and contingent liabilities and Minimum Revenue Provision.

2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council and Pension Fund's banking and investment counterparties. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation. We wrote to those solicitors who worked with the Council and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on page 3 which, as at the date of writing, have not yet been provided. The financial statements were published and a full suite of supporting working papers was provided to the audit team on 28 May 2021, which was two months ahead of the statutory deadline for publication. The quality of working papers provided by the finance team to the audit team was high, with management having improved processes in response to recommendations raised during the 2019/20 audit. Some challenges were encountered with obtaining supporting documentation required for the audit from teams outside of finance in particular from HR and from the pensions administration team, due to capacity issues arising from the transition to an in-house arrangement from the previously outsourced service with Surrey County Council. Relevant recommendations for improvement have been identified in the Action Plan at Appendix A to this report.

2. Financial Statements - other communication requirements

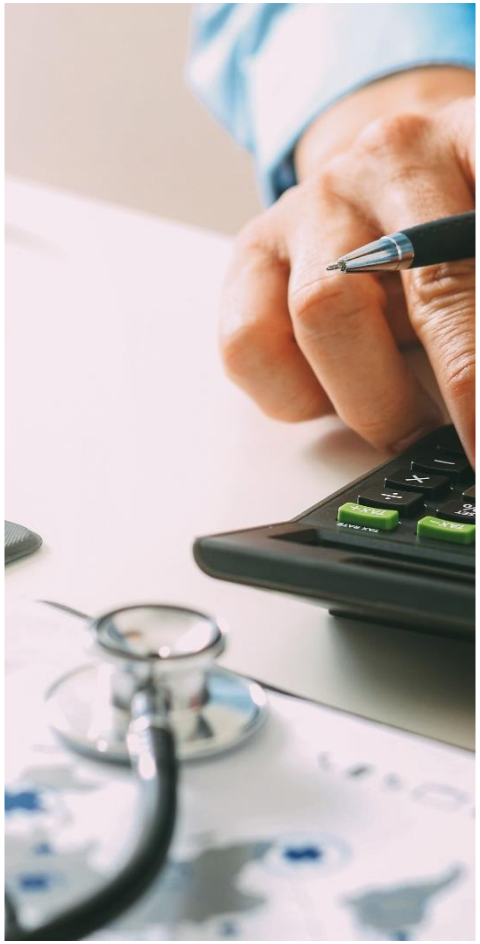
Our responsibility

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).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council and Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and Pension Fund and the environment in which they operate • the Council and Pension Fund's financial reporting framework • the Council and Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude for both the Council and Pension Fund that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Financial Statements - 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 number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported significant weaknesses. We have nothing to report on these matters. We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until December 2021, and therefore this report has not yet been produced.



2. Financial Statements - other responsibilities under the Code

Issue	Commentary
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's gross cost of services exceeds the expected group reporting threshold of £500m, we will examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements and carry out the procedures required by the NAO. This work is not yet completed as the group audit instructions are yet to be issued by the NAO. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audit of the Royal Borough of Kensington and Chelsea and Kensington and Chelsea Pension Fund in the audit report, as detailed in Appendix E. This is because: • the value for money conclusions for 2016/17, 2017/18, 2018/19 and 2019/20 have not been issued and the audit certificates for these years remain open as a result. The 2016/17 and 2017/18 value for money conclusions and audit certificates were under the tenure of the predecessor auditors. We were unable to issue value for money conclusions or audit certificates in 2018/19 or 2019/20 as a result of the preceding two years remaining open. • we have not yet completed our value for money procedures for 2020/21 under the revised Code of Audit Practice. We intend to complete this work and issue our Auditor's Annual Report in advance of the deadline which is three months after the date of the audit opinion. • the group instructions for the assurance statement on the Whole of Government Accounts return are yet to be issued and the associated audit procedures have therefore not been undertaken. Once these instructions are provided, we will agree with management an appropriate timeframe to carry out this work. • we have not yet undertaken the procedures required in ensuring the consistency of the financial statements with the pension fund annual report, as the pension fund annual report has not yet been produced by management. Once the pension fund annual report has been provided, we will be able to complete this work.

3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money (VFM) .

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Our VFM work is in progress. Our detailed commentary will be set out in our separate Auditor's Annual Report. We are satisfied from the work we have undertaken to date that no matters have been identified that would impact on our proposed audit opinion on the financial statements.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

4. 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.

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

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

4. Independence and ethics

Audit 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 and Pension Fund. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	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 £172,997 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)	7,700	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 £7,700 in comparison to the total fee for the audit of £172,997 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 £172,997 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.

4. Independence and ethics

Service	Fees £	Threats identified	Safeguards
Non-audit services			
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 £172,997 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.
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 £172,997, 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.

These services are consistent with the Council and Pension Fund's policy on the allotment of non-audit work to external auditors. None of the services provided are subject to contingent fees.

Appendices

A. Action plan – Audit of Financial Statements – 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 2021/22 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	**Minimum Revenue Provision in respect of housing assets held in the General Fund** MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. For assets acquired to rehouse families affected by the Fire tragedy, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, the Council's policy is to charge nil MRP as long as these properties are held for this purpose, on the basis that this assessment is consistent with the treatment of comparable HRA assets. However in respect of these assets, no compensatory charge is made from the HRA to the Major Repairs Reserve. Additional audit procedures were undertaken and we are satisfied that the impact of this issue in the current year, and cumulatively since this policy was implemented, is not material to the financial statements. However, over the course of several years, depending on the level of capital expenditure on the General Fund housing assets which is financed through borrowing, there remains a risk that this could lead to a significant cumulative underspend on MRP and leave the assets effectively unfinanced, impacting the Council's outturn and level of reserves in future years.	• Management should evaluate the MRP policy in relation to housing assets held within the General Fund to gain assurance that a prudent provision is being made, which will not result in a future risk to the Council's financial sustainability. • Management should ensure that those charged with governance are fully sighted on the impact of not charging MRP in relation to borrowing against housing assets held within the General Fund, before seeking approval for the MRP policy and Treasury Strategy. **Management response** Following the fire, the Council has a direction by Government to hold 250 social properties within the General Fund. The Council has evidenced that the current MRP policy, which treats the properties in the same way as if they were held in the HRA has not resulted in any significant risk of underfinancing to date. A report is planned for Leadership Team in November to determine the future of the 250 properties and the feasibility of plans to move the properties within the HRA.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
● High	**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 testing of journal entries any material misstatements or indications of management override of controls. However, we do not test every journal and there may be undetected fraud or error. This control deficiency applies to both the Council and Pension Fund. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.	• 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 of audit, this ongoing access 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 response** • The configuration of security permissions and access roles available in IBC / SAP are standard across all Hampshire Partners. The system is operated on a high trust model and does not avail a two-stage verification process. • The Council has several controls in place that provide assurance over appropriateness of journals posted into the system. These include regular compliance monitoring through sampling of journal documentation, quarterly reports on activity by user to identify any inappropriate or unusual officer posting and regular budget monitoring at cost centre level. • Many Council departments also maintain journal logs that evidence off system approval between the journal originator and the processing officer.
● Medium	**Related party transaction disclosures** In testing of the related party transactions disclosure, we identified that four members did not return declarations of interest which are used to determine whether any interests held give rise to related party relationships with the Council.	• Management should implement sufficient processes as part of the closedown of the financial statements to ensure that all members return declarations of interest to ensure that related party transaction disclosures are complete. Omitted returns should be followed up and escalated. **Management response** • The Council has a robust system for issuing requests to Members and Senior Officers for related party declarations. Targeted reminders are issued at regular intervals and Governance Services assist with escalation to Party Whips for progression. • In the rare instances where Members do not submit a return, the Council is able to place reliance on the Statutory Register of Member Interests which must be kept updated on the Council's website. The Council is therefore satisfied that no significant transaction has been excluded from disclosure.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
●	**Retention of documentation relating to calculation and approval of employee exit packages** In our testing of termination benefits paid to employees who had been made redundant or otherwise left the Council during the year with a financial settlement, we identified a number of control deficiencies: In one case, the Council had paid an employee an ex-gratia payment on the basis of legal advice, outside of the established redundancy policy. However, this advice and the decision-making process to approve the payment had not been documented and was unavailable for auditor scrutiny. In the absence of documentation to support the payment(s) made, we are unable to assess or validate the legality of these payments, particularly any ex-gratia payments which are of inherent questionable legality. In a separate instance, management had input incorrect salary information into the calculation of the redundancy payment due within the Council's policy, leading to an overpayment of redundancy pay. This issue was only identified through auditor queries. Significant delays were encountered in obtaining sufficient appropriate audit evidence to support the calculations behind the termination benefits disclosure note, with different elements being requested from a number of different teams within the Council and their shared service provider. Officers have expressed frustration at what they consider to be ineffective processes around sharing of information between the Council and the outsourced services at Hampshire County Council. This means that officers did not always have access to information they needed to support the items in the accounts.	• Management should ensure that the decision-making and governance processes around all employee exit packages, and in particular those which have not followed established policies and procedures, are appropriately documented to withstand external scrutiny. • Management should implement a more thorough review process to reduce the potential for error in the calculation of employees' entitlement to specific elements of redundancy benefits. • As part of the closedown process, management should ensure that all documentation relating to the calculation of exit packages disclosed within the notes to the financial statements is made available through a single streamlined route to facilitate efficient responses to auditor queries. Supporting evidence for all exit packages valued at £100k or more should be provided as part of the initial working papers provided for the audit. **Management response** • There was one instance identified where Counsel gave their verbal legal view on an exit package and this was not followed up in writing. Any such future advice on which exit packages are based will be documented. • In accordance with the partnership arrangements with Hampshire HR staff do not have access to see payslips. The audit identified that Hampshire have made one overpayment to an employee that RBKC was not informed of. Discussion has taken place with Hampshire and a reconciliation process has been put in place for any employee exit packages to be verified as paid correctly against the estimate of benefits provided on a continual basis. • There is currently a process in place in which HR provide confidential data directly to the auditors on request for the audit of figures and notes relating to exit packages. A meeting is planned between finance and HR to agree a process going forward to ensure that all figures entered into the draft accounts and any audit changes have been signed off by the Director of Financial Management and Director of HR and OD and all documentation has been reviewed and reconciles with the figures within the accounts and within the agreed timeframes. All required documentation will be made available to the external auditors.

Controls

- ● High – Significant effect on financial statements
- ● Medium – Limited Effect on financial statements
- ● Low – Best practice

A. Action plan – Audit of Financial Statements – Council (continued)

Assessment	Issue and risk	Recommendations
	Completeness of accrued expenditure In our testing of invoices processed during April and May 2021, we identified three items which related to expenditure which had been incurred in 2020/21 but had not been accrued for in the financial statements. Additional audit procedures were undertaken and we are satisfied that each individual instance of error was isolated, and that this issue has not led to a material error in the financial statements. However, the high error rate is indicative of a deficiency in management's control processes around identifying all items to be accrued for at the year-end.	• Management should put into place a more rigorous review process as part of closedown procedures to ensure that all accruals of expenditure are captured. • Additional training should be provided to directorate finance teams to ensure that the importance of accurately recording accruals of expenditure, in particular at the year-end, is understood. **Management response** A lessons learnt session will be held with all Heads of Finance and Business Partners to discuss issues arising from the 2020/21 audit. Ensuring all accruals of expenditure are captured will be a key learning point at the session. Further guidance and training will be provided to improve the current processes and ensure a robust system is in place. Additional pre-audit compliance monitoring will be undertaken by Heads of Finance. Budget forecasting processes will be tightened up and reconciled to final outturn to ensure no significant accruals have been missed in the financial statements. Officers will be reminded of related accounting treatment and statutory duties, including for maintaining historical documents in support of the financial statements.

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

A. Action plan – Audit of Financial Statements – Pension Fund

No new recommendations for improvement were identified through our audit of the Pension Fund in 2020/21, aside from 'journal entry control environment', further detailed under the Council Action Plan on the preceding page, which is applicable to both the Council and Pension Fund.

However, as outlined at Appendix B below, two of the recommendations raised as part of the 2019/20 audit had not been resolved during the year. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit.

B. Follow up of prior year recommendations – Council

We identified the following issues in the audits of the Council's 2019/20 and 2018/19 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Balance sheet listings provided for audit – first identified in 2019/20 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 recommended 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.	Management response The Council has revised its balance sheet reconciliation process, produced a suite of tailored year-end schedules to capture information requested by GT and arranged training for all key officers on how to complete the new schedules. A dry run has been set up for sample GL codes, to take place in early March based on February closing balances. The new templates will provide only those transactions that form part of the balance for each category on the face of the balance sheet. This will allow GT to select valid samples for testing, including on debtors and creditors. Auditor evaluation This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Processes in place for sharing of data with external valuation specialists – first identified in 2019/20** 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. We 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 ensure all data informing management judgements in the accounts is available for audit scrutiny.	**Management response** The Director of Financial Management is addressing issues with the Director of Social Investment and Property to ensure the latter's department is committed to contributing to a successful (and timely) closure and audit of the 2020/21 accounts. An initial planning meeting has been arranged with JLL and both internal departments. **Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Non Domestic Rates rateable value – first identified in 2019/20** 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 reported this as an unadjusted disclosure error in the Audit Findings Report to those charged with governance. We recommended that 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** Updates of rateable value from VOA are received periodically throughout the year and processed promptly within the Council's NDR billing system and the same process applies to updating the year-end rateable value. Last year was an exceptional circumstance which we do not expect to recur. **Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Adequacy of support for key accounting estimates – first identified in 2018/19** 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. In 2019/20, we reported that 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 was therefore carried forward to 2020/21.	**Management response** The work is ongoing. The Chief Accountant has produced a briefing for Members going to Audit and Transparency Committee on 8th March with the Director of Audit, Fraud and Risks report. This sets out the current estimation process followed for key inputs. A copy will be shared with GT. The business rates appeals provision estimate will continue to be produced on best information and expert judgement at the time it is raised. Appeal provisions are prepared based on a methodology/model developed by Analyse Local. The model regularly examines individual properties in terms of type of hereditaments, geographical factors, valuation histories and trends with similar or comparable assessments in the context of nationwide "live" data to arrive at any potential threats for the properties. The provisions are held to be utilised or released over the duration of the list (and beyond if VOA chooses to continue to process unsettled appeals and challenges of a particular list e.g. the Council still maintains a small provision for 2010 list as VOA has not completely finished reviewing all the outstanding appeal applications for 2010 list). **Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Council (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Insufficient details from SOC report to demonstrate that the controls are designed adequately for SAP – first identified in 2018/19** 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. In 2019/20, we reported that 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 was carried forward to 2020/21 for implementation.	**Management response** This has been expressly requested and Gary Westbrook, Head of IBC, has confirmed this requirement has been discussed with EY for inclusion in the 2020/21 report. **Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund

We identified the following issues in the audit of the Pension Fund's 2019/20 financial statements, which resulted in three recommendations being reported in our 2019/20 Audit Findings report. We have followed up on the implementation of our recommendations and note two are still to be completed, which related to data quality and data retention of information held on the Altair pensions administration system. With effect from 1 April 2021, the pensions administration system has been brought back in-house following the cessation of the outsourcing agreement with Surrey County Council. We will evaluate how management have addressed the weaknesses identified within the former arrangement as part of the risk assessment for the 2021/22 audit.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**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. We recommended that 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 now prepare detailed cash flow forecasts and updates for the Investment Committee on a quarterly basis. A Business Plan and budget for 2021/22 was reviewed and approved by the Investment Committee in February 2021. **Auditor evaluation** This issue did not recur during the 2020/21 audit and as such we are satisfied that this recommendation has been satisfactorily addressed.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**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. We recommended that 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** Management noted that the pensions administration system would transition to an in-house service from 1 April 2021, to improve the overall quality of service delivery to members and to resolve areas where data quality was below requirements. During 2020/21, management worked with Surrey County Council, to whom pensions administration was outsourced during the period, to ensure data quality improvements could be made. **Auditor evaluation** This finding recurred during the 2020/21 audit therefore will be carried forward to 2021/22. In particular, we noted that in respect of pensions benefit calculations, where a pensioner had retired part way through a month, the pro-rating of the recurring payment amount had not been consistently applied. With effect from 1 April 2021, the pensions administration system has been brought back in-house following the cessation of the outsourcing agreement with Surrey County Council. We will evaluate how management have addressed the weaknesses identified within the former arrangement as part of the risk assessment for the 2021/22 audit. **Updated management response for 2020/21** A review of member data quality has been undertaken by the RBKC pensions team since taking over the service from Surrey County Council from 1 April 2021. A plan has been agreed to correct previous data quality issues, and this is being put into effect on a priority basis. Since 1 April 2021 a change has been implemented to the calculation of pension benefits for new pensioners so that the pro-ration of pension is calculated automatically by the pension system rather than manually input onto the payroll function within the pensions system; this has resolved the pro-ration issue.

Assessment

✓ Action completed

X Not yet addressed

B. Follow up of prior year recommendations – Pension Fund (continued)

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
x	**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. We recommended that 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** Management noted that the issue had been raised with Surrey County Council, to whom pensions administration had been outsourced. **Auditor evaluation** This finding recurred during the 2020/21 audit therefore will be carried forward to 2021/22. With effect from 1 April 2021, the pensions administration system has been brought back in-house following the cessation of the outsourcing agreement with Surrey County Council. We will evaluate how management have addressed the weaknesses identified within the former arrangement as part of the risk assessment for the 2021/22 audit. **Updated management response for 2020/21** All correspondence affecting the management of a scheme member's record is held under the 'Member Documents' facility for each scheme member. This has been applied consistently since 1 April 2021. Information on starters for new scheme members, and active members leaving the scheme, is received by the Pensions Team from 52 different scheme employers and this is securely held in a central repository for Pensions Team members to consult as necessary.

Assessment

✓ Action completed

X Not yet addressed

C. 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 2021.

Detail	CIES £'000	Balance sheet £' 000	Impact on total net expenditure £'000
Community Infrastructure Levy income not accrued for in the correct accounting period During our testing of sales invoices raised during the first two months of 2021/22 to verify that income had been recorded in the appropriate period, we identified that Community Infrastructure Levy (CIL) funds of £2,117k had been invoiced in May 2021 relating to charges which had been levied from December 2020. These had not been accrued for as at 31 March. Management undertook a review to identify any additional funding which had not been accrued for at the year end, and found that the total value of such funding was £4,234k. Of this, £441k was payable to the Mayor of London under the terms of the scheme, and should therefore have been recognised as a creditor, £207k related to admin costs which should have been recognised as gross cost of services income in the Environment and Communities directorate, and £3,586k related to capital grant and contributions income for the Council which should have been accounted for as 'Taxation and non-specific grant income' in the CIES. We are satisfied from evaluation of management's review that the error is isolated to this income/funding type, and that the error arose due to the cessation of a deferral scheme which was previously in place as a result of Covid. This is not therefore indicative of a wider control issue. However, management amended the 2020/21 financial statements to account correctly for this issue. This amendment also impacted the Movement in Reserves Statement, Cash Flow Statement and Notes 6, 7, 9, 10, 11, 14, 15, 29, 30, 33 and 38 to the financial statements.	(207) (gross cost of services income) (3,586) (taxation and non-specific grant income)	4,234 (short-term debtors) (441) (short-term creditors)	(3,793)
Final settlement for Covid-19 income loss compensation scheme In the draft financial statements, management had accrued for £9,981k of income relating to the government's Covid-19 income loss compensation scheme, which was based on best estimates of lost income at the time of compiling the financial statements. The final settlement was confirmed by MHCLG in August 2021, with the Council being allocated £11,288k of funding. Management amended the financial statements to reflect the final settlement. In addition to the CIES and Balance Sheet, this adjustment impacted on the Narrative Report, Movement in Reserves Statement, Cash Flow Statement and Notes 7, 9, 10, 11, 14, 29, 33 and 38 to the financial statements.	(1,307) (taxation and non-specific grant income)	1,307 (short-term debtors)	(1,307)
Overall impact	(£5,100)	£5,100	(£5,100)

C. 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	Adjustment agreed?
Narrative report Two additional grants were added to the Covid grants table on page 10 of the Statement of Accounts, which had been erroneously omitted from this narrative in the first draft. The value of these grants was £538k to service specific grants and £352k to general grants. This table is for disclosure only and there is no impact on the Comprehensive Income and Expenditure Statement or Balance Sheet arising from this amendment.	✓
Comprehensive Income and Expenditure Statement – split between gross cost of services expenditure and gross cost of services income It was identified through audit testing that £1,811k REFCUS income was erroneously included within net cost of services expenditure within the draft Comprehensive Income and Expenditure Statement, whereas this should have been included within net cost of services income. This was amended for in the final draft of the financial statements, with an increase of £1,073k in Children's Services and Education gross expenditure and a corresponding increase in gross income, and a £738k increase in the Fire tragedy Corporate gross expenditure and corresponding increase in gross income. The impact on the net cost of services and total comprehensive income and expenditure for the year was nil, however the amendment also impacting the following disclosure notes: • Note 11 – Expenditure and income analysed by nature; £1,811k increase to the 'Government grants and contributions' line and 'Total income' sub-total, with a corresponding decrease to the 'Other service expenditure' line and 'Total expenditure' sub-total. • Note 15 – Grant income; £961k increase to the 'Other grants (under £2 million each)' line and £850k increase to the 'Revenue contributions' line.	✓
Note 1 – Critical judgements in applying accounting policies Additional narrative was added to the disclosure note around management's judgement that they are not, at this stage, able to estimate the impact of any civil or criminal liabilities that the Council may face as a result of the Fire tragedy.	✓
Note 2 – Assumptions made about the future and other major sources of estimation uncertainty Two amendments were made to the disclosure note to ensure that it complied with the requirements of IAS1 and the Code of Practice on Local Authority Accounting: • Immaterial disclosures relating to depreciation of property, plant and equipment; expected credit losses relating to debtors; business rates appeals provision; and government grants for income losses, were removed as these were not consistent with the relevant accounting framework. This is due to the fact that these uncertainties did not represent a significant risk of material adjustment to the carrying value of associated assets or liabilities within a 12-month timeframe, as required by IAS 1.125. • The carrying value of the net defined benefit liability and investment properties were included in the relevant sections of the disclosure note, as required by IAS 1.125(b).	✓
Note 16 – Dedicated Schools Grant The presentation of the disclosure note was amended following a request from the Education and Skills Funding Agency (ESFA). This led to the £1,884k which was classified as 'in-year adjustments' in the first draft of the financial statements being reclassified into the 'Academy and high needs recoupment' line. There is no impact on the Comprehensive income and Expenditure Statement; this represents an amendment to the disclosure note only.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 19 – Officer remuneration Upon review of the disclosure note in conjunction with the Code of Practice on Local Authority Accounting, management identified that in relation to the 'Senior officer' table, the Chief Solicitor should be removed and the Director of Financial Management should be added. This impacted on the current year figures and the prior year comparatives. This also impacted the 'Salary bandings' table as this table excludes senior officers. Management also amended their disclosure relating to senior officer posts shared with other local authorities, to include the Director of Public Health post, which had been covered by three different individuals during the year, and to include the remuneration in pounds paid by the Council in respect of each shared post.	✓
Note 20 – Termination benefits The presentation of this disclosure note was updated to include three additional bandings – £151k-£200k, £251k-£300k and £301k-£350k. One additional exit package was recorded within the £151k-£200k banding, which had been erroneously omitted in the first draft of the financial statements. Management determined that as this related to a settlement agreement rather than a compulsory redundancy, it should be included within the 'Other agreed departures' column. There is no impact on the Comprehensive Income and Expenditure Statement as the associated costs had already been recognised. The amendment is to the disclosure note only.	✓
Note 21 – External audit costs The current and prior period figures reported in this disclosure note were updated to accurately reflect actual fees for 2019/20, and the proposed fees as set out in this report for 2020/21.	✓
Note 23 – Related party transactions The disclosure note was amended to reflect current interests of members in the 'Payments to charities' table, as one member had ceased to be a trustee of the Westway Trust prior to the start of the period subject to audit.	✓
Note 29 – Debtors It was identified through audit testing that debtors held with the London Borough of Hammersmith and Fulham had been incorrectly classified as 'Trade receivables' in the disclosure note, whereas these should have been classified as 'Other local authorities'. This was corrected in the final draft of the financial statements, leading to an adjustment of £5,315k between these two categories.	✓
Note 36 – Defined benefit pension schemes Management had erroneously omitted to update the 2019/20 comparative figures for the reversal of IAS 19 charges in the 'Transactions made in the MIRS table'. This led to a reduction of £11,335k in the reported reversal of charges relating to the RBKC Pension Scheme and a trivial reduction in the reported reversal of charges relating to the LPFA pension scheme, such that the prior year comparative figures were consistent with the prior year audited financial statements. There is no impact on the Movement in Reserves Statement or any of the other core financial statements where transactions had already been accurately recorded – this was an inconsistency in the disclosure note and a disclosure error only.	✓

C. Audit Adjustments – Council

Misclassification and disclosure changes (continued)

Disclosure amendment	Adjustment agreed?
Note 41 – Cash and cash equivalents Management identified upon review that £528k within the disclosure note was incorrectly classified as 'Short term deposits' whereas this should have been classified as 'Bank current accounts'. This led to a decrease of £528k in the 'Short term deposits' line in the disclosure note and a corresponding increase in the 'Bank current accounts' line. There is no impact on the Balance Sheet or Cash Flow Statement.	✓
Accounting policies Two amendments were made to the separate section of the Statement of Accounts relating to the Council's accounting policies: • Policy 16, 'Leases' – due to the delayed implementation of IFRS 16 to 1 April 2022, the statement that 'Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.' which was included in the draft Statement of Accounts was not applicable, and was removed in the final draft. • Policy 18, 'Property, plant and equipment' – within the 'depreciation' section, the useful lives for 'Other land and buildings' were amended to align to those advised by managements external property valuation specialist in their valuation report, to confirm useful lives for this asset class of between 5 and 70 years.	✓

A number of other minor presentational amendments were made to the draft financial statements during the course of the audit process. These were evaluated as clearly trivial by the audit team and we are satisfied that separate reporting is not required to those charged with governance.

C. Audit Adjustments – Council

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 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 £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Section 106 contributions received in advance In our sample testing of capital grants and contributions received in advance, which are held as liabilities on the Council's balance sheet, in four cases management were unable to reconcile the original section 106 contributions received as recognised in the financial statements back to supporting evidence. The variances arose as a result of interest charges having been applied to the original amounts paid by developers, over the course of a number of accounting periods since the contributions had been received, for which documentation had not been retained by management. Given that the contributions were historic in nature, there is no impact on the CIES in the current year as the CIES impact would have been transferred to reserves in prior years. The factual errors identified totalled £26k. The table to the right shows the projected impact over all S106 contributions, assuming an even error rate distribution over the population tested through this sample test. The opposite side of the double entry would have been to taxation and non-specific grant income in the years in which the interest charges were accrued. As this is an extrapolated error, it is not possible to indicate which years' financial statements would have been impacted. However, given that this unadjusted item is not material in aggregate, we are satisfied that none of the previous periods' financial statements would have been materially misstated as a result of this issue.	0	(659) (Capital grants received in advance)	0	This unadjusted item represents the potential extrapolated impact of differences between historic balance sheet items and the supporting evidence provided in respect of these for audit procedures, which management were unable to reconcile due to not having retained the relevant data over multiple accounting periods. It does not represent a factual error, therefore management would not be expected to adjust the financial statements to correct it. Furthermore, the projected impact of the error, assuming even distribution across the population subject to testing, is immaterial to the financial statements.
Overall impact	£0	(£659)	£0	

C. 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 2019/20 financial statements, and details of how they impacted upon the 2020/21 financial statements.

Prior year unadjusted misstatements impacting on 2020/21 and future years	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Capital additions – first identified in 2018/19 Management was 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.	0	(1,572)	0	Management did not consider this to be an error as the capital expenditure was incurred, but due to the circumstances they were unable to evidence this. This error was therefore carried forward and will be carried forward to 2021/22.
Fees, charges and other service income – first identified in 2019/20 During sample testing of fees, charges and other service income, we noted the following error which impacted on the 2020/21 CIES. 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. 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 this issue. As such, the factual error identified within the sample was extrapolated across the populations tested as shown in the columns to the right.	(4994)	0	(4,994)	This error is an extrapolation based on the errors identified in a sample of transactions subject to testing from within the whole population. As this is not a factual error, we would not expect management to adjust the financial statements to take account of these errors. Management did not consider the impact of this extrapolated error to be material to the financial statements.

C. Audit Adjustments – Council

Impact of prior year unadjusted misstatements (continued)

Prior year unadjusted misstatements impacting on 2020/21 and future years	CIES £'000	Balance Sheet £' 000	Impact on total net expenditure £'000	Reason for not adjusting
Provisions – first identified in 2019/20 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 the Council, 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). Management did not recognise the provision in the 2019/20 financial statements but did so in 2020/21. This has led to an overstatement of gross expenditure on the cost of services in the Housing Revenue Account in the 2020/21 CIES.	(2,646)	0	(2,646)	Management did not consider this error to be material to the 2019/20 financial statements. Management recognised the appropriate provision in the 2020/21 financial statements. As such, there will be no impact on 2021/22 or future years.
Overall impact of prior year unadjusted misstatements	(£7,640)	(£1,572)	(£7,640)	
Current year unadjusted misstatements	£0	(£659)	£0	
Total unadjusted impact on 2020/21 financial statements	(£7,640)	(£2,231)	(£7,640)	

C. 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 misstatements affecting the Fund Account or Net Assets Statement had been identified through audit testing, therefore no adjustments to the financial statements were proposed. This position will be updated to the date of issuing our audit opinion. There were no unadjusted misstatements reported in the prior year to be evaluated for their continuing impact.

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	Adjustment agreed?
Note 2 – Going concern The narrative within the disclosure note was updated to better reflect the 'continued provision of service' approach adopted by the FReM, Code of Practice on Local Authority Accounting, and Practice Note 10.	✓
Note 4 – Assumptions made about the future and other major sources of estimation uncertainty Narrative relating to the McCloud judgement was removed from this disclosure note as it did not represent a significant risk of material adjustment to the carrying value of associated assets and liabilities within the next financial reporting period. In addition, the disclosure did not meet the requirements of IAS 1.125.	✓
Note 5 – Critical judgements in applying accounting policies Management identified upon review that the disclosures around the pension fund liability and unquoted private equity investments fit better within Note 4, relating to disclosures of estimation uncertainty. Therefore these were moved in the final draft of the financial statements and the narrative amended to ensure these met the requirements of IAS 1.125, which is applied in full by the Code of Practice on Local Authority Accounting.	✓
Note 27 – External audit costs Audit fees disclosed in this note were amended to reflect the proposed fee of £45,500 as communicated to those charged with governance in the Audit Plan, and reflected in this report.	✓

A number of other minor presentational amendments were made to the draft financial statements during the course of the audit process. These were evaluated as clearly trivial by the audit team and we are satisfied that separate reporting is not required to those charged with governance.

D. Fees

We set out below our fees for the audit and provision of non-audit services as set out in the audit plan.

Audit fees	Proposed fee	Final fee
Council Audit	£172,997	£TBC
Pension Fund Audit	£45,500	£TBC
Total audit fees (excluding VAT)	£218,497	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Agreed upon procedures relating to pooling of housing capital receipts	£5,000	£TBC
Agreed upon procedures relating to the Teachers' Pensions End of Year Certificate	£7,700	£TBC
Certification of Housing Benefit Subsidy Claim	£20,000	£TBC
Agreed upon procedures relating to adult learning subcontracting controls	£6,000	£TBC
CFO Insights Subscription	£12,500	£TBC
Total non-audit fees (excluding VAT)	**£51,200**	**£TBC**

The fees reconcile to the financial statements.

E. Audit opinion – Council

Our audit opinion is included below.

We anticipate we will provide the Council with an unmodified audit report, including an emphasis of matter paragraph drawing attention to the disclosure around contingent liabilities.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of the Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2021, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the HRA Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund Account and notes to the financial statements, including a summary of significant accounting policies. The notes to the financial statements include the Technical Notes, Judgements and Assumptions, the Notes to the Movement in Reserves Statement, the Notes to the Comprehensive Income and Expenditure Statement, the Notes to the Balance Sheet, the Notes to the Cash Flow Statement, the Notes to the Housing Revenue Account, the Notes to the Collection Fund and the 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 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Emphasis of matter – contingent liability in respect of the Grenfell Tower fire

We draw attention to Note 32 to the financial statements, which describes the existence of a contingent liability in respect of the tragic fire at Grenfell Tower on 14 June 2017. As disclosed in note 32, the Metropolitan Police continues to investigate the Authority, Kensington and Chelsea Tenant Management Organisation and other parties for corporate manslaughter and the public inquiry continues to look into the causes of the fire. In management's opinion, it is therefore not possible to quantify any liability resulting from this investigation, which is yet to conclude, or any financial liability for civil claims, as financial quantum is yet to be presented in the civil claims process and liability apportioned between various defendants. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

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 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

E. Audit opinion – Council (continued)

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

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, 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 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 the 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 in April 2020 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 '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 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.

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 in April 2020 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 '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 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 matters 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, 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 in the Statement of Responsibilities, 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 2020/21, 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.

E. Audit opinion – Council (continued)

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 report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003, the Local Government Act 1972, the Local Government and Housing Act 1989, the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992), and the Local Government Finance Act 2012.
- We enquired of senior officers and the Audit and Transparency Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Transparency Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined benefit pensions liability.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with, audit engagements of a similar nature and complexity through appropriate training and participation

E. Audit opinion – Council (continued)

- knowledge of the local government sector
- understanding of the legal and regulatory requirements specific to the Authority including:
  - the provisions of the applicable legislation
  - guidance issued by CIPFA/LASAAC and SOLACE
  - the applicable statutory provisions.

- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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 for the Royal Borough of Kensington and Chelsea for the year ended 31 March 2021 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 on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report, and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

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 2021. 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

E. Audit opinion – Council (continued)

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.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2021.

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

E. Audit opinion – Pension Fund

Our audit opinion is included below.

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 2021 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 2020/21.

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 2021 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 2020/21; 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, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. 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.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Executive Director of Resources' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

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 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Executive Director of Resources with respect to going concern are described in the 'Responsibilities of the Authority, the Executive Director of Resources and Those Charged with Governance for the financial statements' section of this report.

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 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

E. Audit opinion – Pension Fund (continued)

Opinion on other matter required by the Code of Audit Practice (2020) 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 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 in relation to the Pension Fund.

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, 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 2020/21, 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 for the Pension Fund. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit and Transparency Committee concerning the Authority's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

E. Audit opinion – Pension Fund (continued)

- We enquired of senior officers, internal audit and the Audit and Transparency Committee whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
  - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Fund Account, and
  - accounting estimates made in respect of the valuation of assets and liabilities in the Net Assets Statement.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
  - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions liability valuation;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team's communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions liability valuation.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the local government pensions sector
  - understanding of the legal and regulatory requirements specific to the Pension Fund including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

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]

F. Management Letter of Representation – Council

We have requested the following representation letter from management:

Dear Sirs

Royal Borough of Kensington and Chelsea
Financial Statements for the year ended 31 March 2021

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 2021 for the purpose of expressing an opinion as to whether the Council 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 2020/21 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 2020/21 ("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. Such accounting estimates include the valuation of land and buildings, including Council Dwellings and Investment Properties, the assumptions used in the valuation of the net defined benefit liability, the valuation and completeness of provisions and contingent liabilities, and expected credit loss allowances in respect of short- and long-term debtors. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable 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

F. Management Letter of Representation – Council (continued)

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 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 Council's 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 :

a. the nature of the Council means that, notwithstanding any intention to liquidate the Council or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Council's system of internal control has not identified any events or conditions relevant to going concern.

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 are satisfied that, where members did not submit declarations of interest as at 31 March 2021 to support the compilation of the Related Party Transactions disclosure note, that this has not led to a material disclosure error in the financial statements

xvi. We are satisfied that all exit packages paid or agreed during the year were subject to appropriate approval processes.

xvii. We are satisfied that accruals of expenditure made as part of the closedown process are materially complete.

Information Provided

xviii. We have provided you with:

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

F. Management Letter of Representation – Council (continued)

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.

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

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

xxi. 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.

xxii. 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.

xxiii. 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.

xxiv. 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.

xxv. 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.

xxvi. 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

xxvii. 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

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

Approval

The approval of this letter of representation was minuted by the Council's Audit and Transparency Committee at its meeting held on 28 September 2021.

Yours faithfully

Signed on behalf of the Council

Appendix: Unadjusted misstatements [see pages 50-52]

F. Management Letter of Representation – Pension Fund

We have requested the following representation letter from management:

Dear Sirs

Kensington and Chelsea Pension Fund
Financial Statements for the year ended 31 March 2021

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 2021 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 2020/21 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 2020/21 ("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. Such accounting estimates include the valuation of investments, in particular those held at level 3 in the fair value hierarchy which have significant unobservable inputs into the valuation techniques, valuation of directly-held investments in property, and the disclosure of actuarial present value of promised retirement benefits. 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. We understand our responsibilities includes identifying and considering alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the estimate used. We are satisfied that the methods, the data and the significant assumptions used by us in making accounting estimates and their related disclosures are appropriate to achieve recognition, measurement or disclosure that is reasonable 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.

F. Management Letter of Representation – Pension Fund (continued)

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.

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

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

xii. 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 that :

a. the nature of the Fund means that, notwithstanding any intention to liquidate the Fund or cease its operations in their current form, it will continue to be appropriate to adopt the going concern basis of accounting because, in such an event, services it performs can be expected to continue to be delivered by related public authorities and preparing the financial statements on a going concern basis will still provide a faithful representation of the items in the financial statements

b. the financial reporting framework permits the entry to prepare its financial statements on the basis of the presumption set out under a) above; and

c. the Fund's system of internal control has not identified any events or conditions relevant to going concern.

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.

Information Provided

viii. 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.

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

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

xi. 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.

xii. 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.

F. Management Letter of Representation – Pension Fund (continued)

xiii. 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.

xiv. 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.

xv. 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.

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

xvii. 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.

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

Approval

The approval of this letter of representation was minuted by the Audit and Transparency Committee of the Fund's administering authority's at its meeting held on 28 September 2021.

Yours faithfully

Signed on behalf of the Fund

G. Audit letter in respect of delayed VFM work

GrantThornton

Chair of Audit and Transparency Committee
Royal Borough of Kensington and Chelsea
Town Hall
Hornton Street
London
W8 7NX

Grant Thornton UK LLP
110 Bishopsgate
LONDON
EC2N 4AY

28 September 2021

Dear Chair of Audit and Transparency Committee

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report in December 2021.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

grantthornton.co.uk