

# The Audit Findings Report for Royal Borough of Kensington of Chelsea Pension Fund

Year ended 31 March 2023



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**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 and the Audit and Transparency Committee.**

**Name : Paul Cuttle**  
**For Grant Thornton UK LLP**  
**Date : November 2023**

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 Pension Fund 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.

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# 1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Royal Borough of Kensington and Chelsea Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2023 for the attention of those charged with governance.

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## Financial Statements

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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 Pension Fund's financial statements give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2023 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund 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.

Our audit work was completed during July-September 2023. Our findings are summarised on pages 5 to 15. We have identified one adjustment of £1,026k that reduces the investments balance within the Pension Fund's Net Asset Statement. The Fund has decided not to amend the financial statements as the adjustment is immaterial. The misstatements are detailed in Appendix B.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion or material changes to the financial statements, subject to the following outstanding matters;

- receipt and review of an outstanding item to enable us to complete our work on transfers in;
- review of the Pension Fund Annual Report; and
- review of the final set of financial statements.

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 opinion on the financial statements will be unmodified.

Whilst our work on the Pension Fund financial statements is substantially complete, we will be unable to issue our final audit opinion on the Pension Fund financial statements until the audit of the Council is complete.

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 1 December 2023 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.

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# 1. Headlines

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## National context – audit backlog

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Nationally there have been significant delays in the completion of audit work and the issuing of audit opinions across the local government sector. Only 12% of local government bodies had received audit opinions in time to publish their 2021/22 accounts by the extended deadline of 30 November. There has not been a significant improvement over this last year, and the situation remains challenging. We at Grant Thornton have a strong desire and a firm commitment to complete as many audits as soon as possible and to address the backlog of unsigned opinions.

Over the course of the last year, Grant Thornton has been working constructively with DLUHC, the FRC and the other audit firms to identify ways of rectifying the challenges which have been faced by our sector, and we recognise the difficulties these backlogs have caused authorities across the country. We have also published a report setting out our consideration of the issues behind the delays and our thoughts on how these could be mitigated. Please see [About time? \[grantthornton.co.uk\]](https://www.grantthornton.co.uk)

The work on the 2021/22 Kensington and Chelsea Pension Fund is complete. However, we are unable to give an opinion on the pension fund financial statements until the work on the Council's main financial statements is complete. We are awaiting the determination from DLUHC on the Council's request for a £75m capitalisation direction to pay compensation to victims of the Grenfell tragedy and subsequent update of the Council's 2021/22 financial statements following the decision.

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## Local context - triennial valuation

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Triennial valuations for local government pension funds have been published. These valuations, which are as at 31 March 2022, provide updated information regarding the funding position of the Pension Fund and set employer contribution rates for the period 2023/24 – 2025/26. For the Pension Fund, the valuation was undertaken by Hymans Robertson LLP. The results of the latest triennial valuation are reflected in the financial statements. These valuations also provide updated information for the net pension liability on employer balance sheets.

We have performed testing of the completeness and accuracy of triennial valuation source data. We tested the data provided to the actuary for 25 members of the pension scheme and were satisfied the data agreed to underlying source documents. No errors were identified.

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## 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 and the Audit and Transparency Committee.

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 Pension Fund's business and is risk based, and in particular included:

- An evaluation of the 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 have not altered our audit plan as communicated to you in July 2023.

### Conclusion

We have substantially completed our audit of the Pension Fund's financial statements and subject to outstanding matters set out on page 3 being resolved, we anticipate issuing an unqualified opinion.

#### 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 the disclosure requirements and adherence to acceptable accounting practice and applicable law.

We have revised the performance materiality due to the actual gross investment assets changing significantly from previous year resulting in a review of the appropriateness of the materiality figure.

We set out in this table our determination of materiality for the Pension Fund.

## Pension Fund Amount (£)

Materiality for the financial statements	15,800,000
Performance materiality	11,850,000
Trivial matters	800,000
Materiality for fund account	4,908,000



## 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	Commentary
<p><b>Management override of controls</b></p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>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.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>• evaluating of the design effectiveness of management controls over journals;</li> <li>• analysing the journals listing and determining the criteria for selecting high risk unusual journals;</li> <li>• testing unusual journals recorded during the year and the accounts production stage for appropriateness and corroboration; and</li> <li>• gaining an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness.</li> </ul> <p>We have not identified any material issues from our work.</p>
<p><b>Improper revenue recognition</b> <b>(Rebutted)</b></p>	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition;</li> <li>• opportunities to manipulate revenue recognition are very limited; and</li> <li>• 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.</li> </ul> <p>Therefore, we did not consider this to be a significant risk for the Royal Borough of Kensington and Chelsea Pension Fund.</p> <p>There have been no changes to our assessment as reported in the Audit Plan.</p>

## 2. Financial Statements: Significant risks

### Risks identified in our Audit Plan

#### Valuation of level 3 investments and of investments in directly-held property

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, investments carried at level 3 in the fair value hierarchy lack observable inputs which can be used in their valuation. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£250 million in the Pension Fund's Net Assets Statement as at 31 March 2023) 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 2023.

The Pension Fund has also invested in directly held property and has continued with direct property purchases in 2022-23. This valuation also represents a significant estimate by management. Management will need to ensure that these assets are subject to a 31 March 2023 valuation by a property valuation expert.

### Commentary

Audit procedures undertaken in response to the identified risk included:

- evaluating management's processes for valuing Level 3 investments;
- reviewing the nature and basis of estimated values and assessing 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 requesting year-end confirmations from investment managers and the custodian;
- for a sample of investments, testing the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciling those values to the values at 31 March 2023 with reference to known movements in the intervening period;
- in the absence of available audited accounts, evaluating the competence, capabilities and objectivity of the valuation expert;
- where available, reviewing investment manager service auditor report on design and operating effectiveness of internal controls;
- evaluating 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;
- evaluating the competence, capabilities and objectivity of the valuation expert;
- writing to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met; and
- engaging 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.

The Private Equity Level 3 investment balance recorded in the financial statements is based on the figure provided by the fund's custodian. The custodian's balance is estimated utilising the December 2022 audited figure adjusted for cash movements from 1 January 2023 to 31 March 2023. The custodian's estimate does not account for market movement between 1 January 2023 to 31 March 2023. Once the movement in markets is factored into the valuation, the Private Equity investments reduced by £1,026k. The difference is not material to the financial statements and as such, it has not been adjusted by the Fund.

## 2. Financial Statements: Other risks

### Risks identified

### Commentary

#### 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.

Audit procedures undertaken in response to the identified risk included:

- gaining an understanding of the Fund's process for valuing Level 2 investments and evaluating the design of the associated controls;
- reviewing the nature and basis of estimated values and considering what assurance management has over the year end valuations provided for these types of investments;
- independently requesting year-end confirmations from investment managers and custodian;
- reviewing the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and seeking explanations for variances;
- testing a sample of the underlying investments to quoted prices; and
- reviewing investment manager service auditor report on design effectiveness of internal controls.

We have not identified any material issues from our work.

#### Contributions

Contributions from employers and employees' represents 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.

Audit procedures undertaken in response to the identified risk included:

- evaluating the Fund's accounting policy for recognition of contributions for appropriateness;
- gaining an understanding of the Fund's system for accounting for contribution income and evaluating the design effectiveness of the associated controls;
- testing a sample of contributions to source data to gain assurance over their accuracy and occurrence; and
- testing 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 are satisfactorily explained.

Our testing is still in progress, to date we have identified any material issues from our work.

#### 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.

Audit procedures undertaken in response to the identified risk included:

- evaluating the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- testing a sample of lump sums and associated individual pensions in payment by reference to member files; and
- testing 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 are satisfactorily explained.

We have not identified any material issues from our work.

## 2. Financial Statements: Other risks

Risks identified	Commentary
<p><b>Actuarial Present Value of Promised Retirement Benefits</b></p> <p>The 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.</p> <p>The Actuarial Present Value of Promised Retirement Benefits is considered a significant estimate due to the size of the numbers involved (£1.1 billion as at 31 March 2023) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund's Actuarial Present Value of Promised Retirement Benefits as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>• updating 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 evaluating the design of the associated controls;</li> <li>• evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;</li> <li>• assessing the competence, capabilities and objectivity of the actuary who carried out the Fund's valuation;</li> <li>• assessing the accuracy and completeness of the information provided by the Fund to the actuary to estimate the liability;</li> <li>• testing the consistency of disclosures with the actuarial report; and</li> <li>• assessing the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p>We have not identified any material issues from our work.</p>
<p><b>Actuarial valuation of the Fund as at 31 March 2023</b></p> <p>The Actuarial valuation of the Fund as at 31 March 2022 will be disclosed within the 2022-23 financial statements as a disclosure note.</p> <p>The valuation of the Fund as at 31 March 2022 is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Fund as a risk of material misstatement.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> <li>• updating our understanding of the processes and controls put in place by management to ensure that the Fund's triennial valuation is not materially misstated and evaluating the design of the associated controls;</li> <li>• assessing the accuracy and completeness of the information provided by the Fund to the actuary to estimate the triennial valuation;</li> <li>• testing the consistency of disclosures with the March 2023 valuation report from the actuary; and</li> <li>• assessing the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.</li> </ul> <p>We have not identified any material issues from our work.</p>

## 2. Financial Statements: key judgements and estimates

This section provides commentary on key estimates and judgements 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 – £124m	<p>The Pension Fund has investments in Private Equity funds that are valued on the net assets statement as at 31 March 2023 at £124m.</p> <p>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 2022 which are audited. The value of the investment has increased by £2.629m in 2022/23, due to a combination of purchases, sales and changes in market value.</p>	<ul style="list-style-type: none"> <li>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 2022.</li> <li>We have assessed the consistency of the estimate against peers and industry practice.</li> <li>We have reviewed the reasonableness of the increase in the estimate.</li> <li>We have assessed the adequacy of disclosure of estimate in the financial statements.</li> <li>Testing identified that the funds are valued using the December 2022 values adjusted for cash movements between 1 January and 31 March 2023. However, fund manager reports received after the accounts had been prepared also take into account market movements. The actual value of the 31 March 2023 investments taking account of these market movements was £1,026k lower.</li> </ul>	Blue
Level 3 Directly-Held Property Investments – £126.2m	<p>The Pension Fund holds investments in directly-held property to the value of £126.2m. This comprises five commercial properties (three in 2020/21) which are rented out to businesses. During the year two commercial properties were acquired these consisted of units in a retail park and a supermarket store.</p> <p>The Pension Fund engaged Jones Lang LaSalle (JLL) to complete the valuation of these properties as at 31 March 2023, on a fair value basis.</p>	<ul style="list-style-type: none"> <li>We have assessed management's expert, JLL, to be competent capable and objective.</li> <li>The valuer has correctly prepared the valuation using fair value methodology.</li> <li>We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for JLL (funds valuation experts), the valuation methodology and approach, the yields adopted and whether they fall within the expected range.</li> <li>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.</li> <li>We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements.</li> </ul>	Light purple

## 2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<b>Level 2 Investments – £1.327m</b>	<p>The Pension Fund has investments in pooled equity and property funds that in total are valued on the balance sheet as at 31 March 2023 at £1.327m.</p> <p>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.</p>	<ul style="list-style-type: none"> <li>We have assessed the appropriateness of the underlying information used to determine the estimate.</li> <li>We have assessed the consistency of the estimate against peers and industry practice.</li> <li>We have tested underlying valuations to quoted prices.</li> <li>We have reviewed the reasonableness of the increase in the estimate.</li> <li>We have assessed the adequacy of disclosure of estimate in the financial statements.</li> </ul>	<i>Light purple</i>

### 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 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
<b>Matters in relation to fraud</b>	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.
<b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
<b>Matters in relation to laws and regulations</b>	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.
<b>Written representations</b>	A letter of representation has been requested from the Pension Fund and included in the Audit and Transparency Committee papers.
<b>Audit evidence and explanations</b>	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 prior to the commencement of the audit.  The quality of working papers provided by the finance team to the audit team was high.
<b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to the Pension Fund's banking and investment counterparties. This permission was granted, and the requests were sent.  We wrote to those solicitors who worked with the Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
<b>Accounting practices</b>	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.

## 2. Financial Statements: other communication requirements



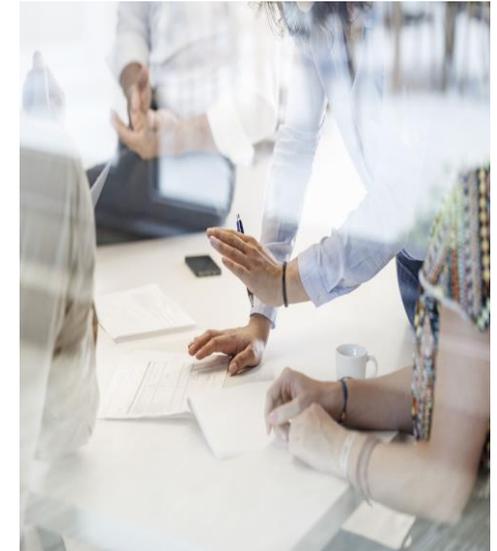
### Our responsibility

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	<p>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.</p> <p>Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul style="list-style-type: none"> <li>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</li> <li>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.</li> </ul> <p>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 Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul style="list-style-type: none"> <li>the nature of the Pension Fund and the environment in which it operates</li> <li>the Pension Fund's financial reporting framework</li> <li>the Pension Fund's system of internal control for identifying events or conditions relevant to going concern</li> <li>management's going concern assessment.</li> </ul> <p>On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that:</p> <ul style="list-style-type: none"> <li>a material uncertainty related to going concern has not been identified</li> <li>management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</li> </ul>

## 2. Financial Statements: other responsibilities under the Code

Issue	Commentary
Other information	<p>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.</p> <p>No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect.</p>
Matters on which we report by exception	<p>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 1 December 2023 and therefore this report has not yet been produced. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.</p>



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# 3. 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 and consider that an objective reasonable and informed third party would take the same view. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

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

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

Details of fees charged are detailed in Appendix C.

## 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 [Grant Thornton International Transparency report 2023](#).

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# 3. 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 Pension Fund. No non-audit services were identified which were charged from the beginning of the financial year to date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats. Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. We have not been approached to undertake any specific work by any of the funds scheduled or admitted body auditors.

### Audit fee 2022/23

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Royal Borough of Pension Fund Audit fees (excluding VAT)	£49,049
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# 3. Independence and ethics

As part of our assessment of our independence we note the following matters:

Matter	Conclusion
Relationships with Grant Thornton	We are not aware of any relationships between Grant Thornton and the Pension Fund that may reasonably be thought to bear on our integrity, independence and objectivity.
Relationships and Investments held by individuals	We have not identified any potential issues in respect of personal relationships with the Pension Fund held by individuals.
Employment of Grant Thornton staff	We are not aware of any former Grant Thornton partners or staff being employed, or holding discussions in respect of employment, by the Pension Fund as a director or in a senior management role covering financial, accounting or control related areas.
Business relationships	We have not identified any business relationships between Grant Thornton and the Pension Fund.
Contingent fees in relation to non-audit services	No contingent fee arrangements are in place for non-audit services provided.
Gifts and hospitality	We have not identified any gifts or hospitality provided to, or received from, a member of the Pension Fund's board, senior management or staff that would exceed the threshold set in the Ethical Standard.

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 and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person [and network firms] have complied with the Financial Reporting Council's Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements

Following this consideration we can confirm that we are independent and are able to express an objective opinion on the financial statements.

# Appendices

- A. Communication of audit matters to those charged with governance
- B. Audit Adjustments
- C. Fees and non-audit services
- D. Auditing developments

# A. Communication of audit matters to those charged with governance

<b>Our communication plan</b>	<b>Audit Plan</b>	<b>Audit Findings</b>
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	•	
Confirmation of independence and objectivity	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Findings, outlines those key issues, findings and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

## Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

## Distribution of this Audit Findings Report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, we are also required to distribute our findings to those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report to all those charged with governance.

## B. Audit Adjustments

We are required to report all non-trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There were no adjusted misstatements over the triviality threshold.

### Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2022/23 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	Pension Fund Account £'000	Net Asset Statement £' 000	Reason for not adjusting
The Private Equity Level 3 investment balance recorded in the financial statements is based on the figure provided by the fund's custodian. The custodian's balance is estimated utilising the December 2022 audited figure adjusted for cash movements from 1 January 2023 to 31 March 2023. The custodian's estimate does not account for the market movement between 1 January 2023 to 31 March 2023. Once the movement in markets is factored into the valuation, the Private Equity investments reduced by £1,026k.	Dr Change in market value of investments  1,026	Credit Level 3 investments  1,026	The proposed adjustment is not material.
<b>Overall impact</b>	<b>£1,026</b>	<b>£1,026</b>	

# D. Audit Adjustments

## Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
<p>The outstanding contractual commitments related to Adams Street private equity funds in note 18 to the pension fund financial statements are reported as at 31 December 2022 instead of as at 31 March 2023.</p> <p>A review of the 31st March 2023 valuation for private equities shows that the outstanding commitments as at 31st March 2023 are £4,400k lower than the disclosed amount.</p>	Amend the disclosure note..	Management have not adjusted no the basis its presentational and not material.

## C. Fees and non-audit services

We confirm below our final fees charged for the audit. There are no non-audit or other audited related services that have been undertaken for the Pension Fund.

None of the below services were provided on a contingent fee basis.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£49,049	£49,049
Total audit fees (excluding VAT)	£49,049	£49,049

\*Note that fees for IAS 19 letters for employer body auditors were classed as non-audit fees prior to 2022/23. The National Audit Office have confirmed that the provision of IAS 19 assurances to auditors of local government and NHS bodies should be considered work undertaken under the Code of Audit Practice for 2022/23 onwards. Provision of IAS 19 assurances to auditors of any other type of entity remains non-Code work.

	Proposed fee 2022/23
Scale fee published by PSAA	£22,420
Fee variation relating to investments testing including fees to valuer for property assets (£14,899 and £2,620)	£17,529
Fee variation relating ISA540 and journals testing (£3,000 and £2,600)	£5,600
Fee variation for 2022/23 in respect of ISA 315 revised and additional payroll testing (£3,000 and £500)	3,500
<b>Total audit fees (excluding VAT)*</b>	<b>£49,049</b>

# D. Auditing developments

## Revised ISAs

There are changes to the following ISA (UK):

ISA (UK) 315 (Revised July 2020) 'Identifying and Assessing the Risks of Material Misstatement'

**This impacts audits of financial statement for periods commencing on or after 15 December 2021.**

ISA (UK) 220 (Revised July 2021) 'Quality Management for an Audit of Financial Statements'

ISA (UK) 240 (Revised May 2021) 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements'

A summary of the impact of the key changes on various aspects of the audit is included below:

These changes will impact audit for audits of financial statement for periods commencing on or after 15 December 2022.

Area of change	Impact of changes
Risk assessment	The nature, timing and extent of audit procedures performed in support of the audit opinion may change due to clarification of: <ul style="list-style-type: none"> <li>the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures</li> <li>the identification and extent of work effort needed for indirect and direct controls in the system of internal control</li> <li>the controls for which design and implementation needs to be assess and how that impacts sampling</li> <li>the considerations for using automated tools and techniques.</li> </ul>
Direction, supervision and review of the engagement	Greater responsibilities, audit procedures and actions are assigned directly to the engagement partner, resulting in increased involvement in the performance and review of audit procedures.
Professional scepticism	The design, nature, timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>increased emphasis on the exercise of professional judgement and professional scepticism</li> <li>an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence</li> <li>increased guidance on management and auditor bias</li> <li>additional focus on the authenticity of information used as audit evidence</li> <li>a focus on response to inquiries that appear implausible</li> </ul>
Definition of engagement team	The definition of engagement team when applied in a group audit, will include both the group auditors and the component auditors. The implications of this will become clearer when the auditing standard governing special considerations for group audits is finalised. In the interim, the expectation is that this will extend a number of requirements in the standard directed at the 'engagement team' to component auditors in addition to the group auditor. <ul style="list-style-type: none"> <li>Consideration is also being given to the potential impacts on confidentiality and independence.</li> </ul>
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: <ul style="list-style-type: none"> <li>clarification of the requirements relating to understanding fraud risk factors</li> <li>additional communications with management or those charged with governance</li> </ul>
Documentation	The amendments to these auditing standards will also result in additional documentation requirements to demonstrate how these requirements have been addressed.



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