The Audit Findings for Royal Borough of Kensington and Chelsea Council

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: October 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 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.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of the Royal Borough of Kensington and Chelsea Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2023 for the attention of 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's financial statements give a true and fair view of the financial position of the Council its 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 during July-October 2023. Our findings are summarised on pages 4 to 21. We have not identified any adjustments to the financial statements that have impacted on the Council's General Fund position. Audit adjustments are detailed in Appendix D. We have also raised recommendations for management as a result of our audit work. These are set out in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix C.

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 of the Secretary of State for Levelling Up, Housing and Communities decision on the Council's requested £75m capitalisation direction to enable the Council to pay its share of the compensation due to the bereaved, survivors and first responders of the Grenfell Tower tragedy and associated legal costs. The financial statements for 2021-22 and 2022-23 will then need to be updated to reflect the decision.
- Receipt and review of assurance letters from the auditors of London Pension Fund Authority.
- Receipt of management representation letter.
- 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 the Council and the financial statements we have audited.

Our anticipated financial statements audit report opinion will be unqualified. Our work on the Council's value for money (VFM) arrangements is not yet complete. The outcome of our VFM work will be reported in our commentary on the Council's arrangements in our Auditor's Annual Report (AAR). We are satisfied this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2023.

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 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	We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We will issue our Auditor's Annual Report by the end of January 2024. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements. As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any risks at this stage.
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 expect to certify the completion of the audit upon finalising of our work on the Council's 2021/22 financial statements. The 2021/22 financial statements will need to be updated following the government's decision on the capitalisation direction. We also need to finalise our work on the Council's Value for Money arrangements.
Significant matters	We did not encounter any significant difficulties or identify any significant matters arising during our audit.

1. Headlines

National context – audit backlog

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. The audit of the Royal Borough of Kensington and Chelsea Council has always been completed in a timely manner and the failure to meet the audit deadline in the last two years has been due to the accounting for Grenfell.

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)**

We would like to thank everyone at the Council for their support in working with us to address the national issues relating to infrastructure assets and Pension Fund IAS19 liabilities. The only outstanding issue preventing the 2021-22 and 2022-23 financial statements opinions being issued is due to the Council awaiting the governments decision on the capitalisation direction.

National context – level of borrowing

All Councils are operating in an increasingly challenging national context. With inflationary pressures placing increasing demands on Council budgets, Councils have been seeking alternative ways to generate income. We have seen an increasing number of councils look to ways of utilising investment property portfolios as sources of recurrent income. Whilst there have been some successful ventures and some prudently funded by councils' existing resources, we have also seen some councils take excessive risks by borrowing sums well in excess of their revenue budgets to finance these investment schemes.

The impact of these huge debts on Councils, the risk of potential bad debt write offs and the implications of the poor governance behind some of these decisions are all issues which now have to be considered by auditors across local authority audits.

The Council's finances have been well managed and the Council has achieved an underspend of £10.2m in 2022/23. This balance has been transferred into reserves. The Council's investment property portfolio of £231m has delivered rental income of £16.2m for the year. The Council repaid £5m of PWLB debt in the year which resulted in a reduction of borrowing to £229m from £234m and the average interest rate on remaining loans reduced from 3.42% to 3.32%. All of the Council's loans are at a fixed rate of interest rate with the majority set to mature between 10 to 40 years time.

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

- An evaluation of the Council'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 had to alter our audit plan, as communicated to you on 17 July 2023.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion. We are awaiting the Secretary of State for Levelling Up, Housing and Communities decision on the capitalisation direction. Following this the Council will need to update the 2021-22 and 2022-23 financial statements.

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.

Materiality levels have been revised due to gross expenditure increasing from the previous year. This is expected due to the inflationary pressures faced by the Council. We have amended our materiality level in accordance with the increase in gross expenditure.

We set out in this table our determination of materiality for Royal Borough of Kensington and Chelsea Council.

	Amount planning (£)	Amount final (£)
Materiality for the financial statements	11,300,000	12,400,000
Performance materiality	7,910,000	8,680,000
Trivial matters	565,000	600,000

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
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumption that the risk of management override of controls is present in all entities. The Council faces external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, and 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.	Audit procedures undertaken in response to the identified risk included: • Evaluation of the design and implementation of management controls over journals. • Analysis of the journals listing and determination of the criteria for selecting high risk unusual journals. • Identification and testing of unusual journals made during the year and the accounts production stage for appropriateness and corroboration. • Gaining an understanding of the accounting estimates and critical judgements applied by management and consideration of their reasonableness. • Review and testing transfers between the General Fund and HRA. 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. Our testing of journal entries has not identified any material misstatements or indications of management override of controls. There is no evidence that senior management have posted any journals. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.
Improper revenue recognition Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.	Under ISA (UK) 240 there is a rebuttable presumed risk of material misstatement 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. Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Royal Borough of Kensington and Chelsea, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because: • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. Therefore, we do not consider this to be a significant risk for the Council.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Valuation of Investment Properties, Heritage Assets, Council Dwellings and Other 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 (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 (£1.7 billion) and the sensitivity of this estimate to changes in key assumptions. Management will need to ensure that the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for investment properties) at the financial statements date. The Council has appointed a new valuer to undertake the 31 March 2023 valuations. In the first year of valuation there is potential for more significant changes in valuations. We will focus our audit attention on assets that have large and unusual changes and / or approaches to the valuation of Council Dwellings, Other Land and Buildings, Investment properties, as a significant risk requiring special audit consideration.	Audit procedures undertaken in response to the identified risk included: • 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. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • 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. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end. Our audit work has not identified any issues in respect of valuation of Investment Properties, Heritage Assets, Council Dwellings and Other Land and Buildings.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of pension fund net surplus The pension fund net asset, as reflected in the balance sheet as other long term assets, represents a significant estimate in the financial statements. The pension fund net asset is considered a significant estimate due to the size of the numbers involved (£457 million in the Council's balance sheet at 31 March 2023) 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. Small changes in 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.	Audit procedures undertaken in response to the identified risk included: • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated and evaluated the design of the associated controls. • Evaluated the instructions issued by management to their management experts (the 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 pension fund valuation. • Assess the accuracy and completeness of the information provided to the actuary to estimate the liabilities. • Tested the consistency of the disclosures in the notes to the core financial statements with the reports 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. • Gained assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Fund. We have not identified any material misstatements in response to this risk. Management had bought across the surplus net defined benefit asset from the London Pension Fund Authority scheme of £11,096k. The application of accounting standard IFRIC14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £1,222k and limits the asset that can be applied to this figure resulting in a reduction of £9,874k. We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the LPFA pension fund liability balance.

2. Financial Statements: Significant risks

Risks identified in our Audit Plan	Commentary
Completeness of provisions and contingent liabilities In 2021/22, the Council disclosed a provision within their financial statements that covers global civil claims made against the Council resulting from the Grenfell Tower tragedy. These global settlements were due to be settled in 2023/24. The Council also disclosed a contingent liability in respect of potential future payments which may need to be made as a result of the Public Inquiry and concurrent police investigation into the Grenfell Tower fire, and any other civil claims which may be lodged against the Council. The Council made the judgement that at the time, it was not possible to estimate the value or likelihood of any potential liability on these aspects. We identified the completeness of short- and long-term provisions recognised and disclosure of contingent liabilities as a significant risk of material misstatement.	We are awaiting the receipt of the Secretary of State for Levelling Up, Housing and Communities decision on the Council's requested £75m capitalisation direction to enable the Council to pay its share of the compensation due to the bereaved, survivors and first responders of the Grenfell Tower tragedy and associated legal costs. The financial statements for 2021-22 and 2022-23 will then need to be updated to reflect the decision. We will then need to audit the entries that have been amended within the updated financial statements.

2. Financial Statements: key judgements and estimates

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

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations: **Other Land and Buildings £541m** **Investment Properties £231m**	Other land and buildings which were revalued during the year comprise £343m 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 (£198m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end. The Council engaged Sanderson Weatherall to complete the valuation of properties as at 31 March 2023. A total of £526m (97%) of other land and buildings assets were revalued during 2022/23. The remainder of £15m were assets acquired during the year and were therefore not subject to valuation. The total year end valuation of land and buildings was £540.9m, a net decrease of £24.6m from 2021/22 (£565.5m). This net decrease arises from the valuation process in combination with additions to and enhancements of property assets during the year. Sanderson and Weatherall have valued all the Council's Investment properties at fair value as required by the accounting standards.	• We have assessed management's expert, Sanderson and Weatherall, 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. • 97% of properties have been valued as at 31 March 2023. • We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for Sanderson and Weatherall, 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**

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Land and Buildings – Council Housing - £870m	The Council owns 6,700 dwellings in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its Sanderson and Weatherall valuer to complete the valuation of these properties. The year end valuation of Council Housing was £870m, a net increase of £16m from 2021/22 (£854m).	• We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation methodology this year. • 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 Council dwellings have been valued as at 31 March 2023.	Light Purple
Provisions for {NNDR appeals} - 20.9m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2022/23, management used an external organisation, Analyse Local, to calculate the level of provision required. Analyse Local's calculation is based upon the latest information on outstanding rates appeals provided by the Valuation Office Agency (VOA) and previous success rates. The provision in the financial statements increased by £5.1m.	• 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

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment

Net pension asset (surplus) – £457m

IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the balance sheet and whether any additional liabilities are required in respect of onerous funding commitments.

IFRIC 14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Summary of management's approach

The Council's net pensions asset comprising assets and liabilities relating to the Royal Borough of Kensington and Chelsea Pension Fund and London Pension Fund Authority Local Government Pension Schemes and an immaterial amount of unfunded defined benefit pension scheme obligations. The Council uses Barnett Waddingham to provide actuarial valuations of the Council's assets and liabilities derived from these schemes. A full actuarial valuation is required every three years.

The latest full actuarial valuation was completed as at 31 March 2022. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.

Given the significant value of the net pension fund assets, small changes in assumptions can result in significant valuation movements. There has been a net increase of £377m in the overall net pension fund asset in 2022/23.

Audit Comments

- We have assessed the actuaries, Barnett Waddingham, to be competent, capable and objective.
- 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	PwC range	Assessment
Discount rate	4.75%	4.75%	
Pension increase rate	2.95%	2.85-3.0%	
Salary growth	3.95%	3.85 – 4.0%	
Life expectancy – Males currently aged 45/65	22.1 years 23.0 years	*See note below	
Life expectancy – Females currently aged 45/65	24.7 years 25.9 years		

Note - Figures within the IAS19 results schedule may now show individual employer level life expectancies. As a result of the significantly larger differences at individual employer level (in comparison to LGPS fund averages), the life expectancy ranges may now be significantly wider at both the lower and upper bounds. The potential difference in range can be around 8-10 years at the extremes of individual employer level life expectancies.

- 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 2022/23 valuation method.
- We have completed the same testing as above in relation to the Net LPFA pensions asset.

Management had bought across the surplus net defined benefit asset from the London Pension Fund Authority scheme of £12,096k £11,096k. The application of accounting standard IFRIC14 which limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £10,874k £1,222k and limits the asset that can be applied to £1,222k this figure resulting in a reduction in £9,874k

Assessment

Blue.

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £350m	Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: • the Council will comply with the conditions attached to the payments, and • the grants or contributions will be received. Amounts recognised as due to the Council are not credited until conditions attached to the grant or contribution have been satisfied. The Council has credited £350m of grants to the Consolidated Income and Expenditure Statement in 2022/23. The Council has received a number of Grants and Contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned if not spent. The balances at the year-end for these grants is £98m. The Council acts as an Agent for Central Government in respect of the majority of Business Rates Grants that are used to support business during the current Covid pandemic. These grants are distributed by the Council from central government and therefore do no not appear in the Consolidated Income and Expenditure statement.	• We are satisfied with all the other grants tested that the Council's judgement on whether the Council is acting as the principal or agent which determines whether the authority recognises the grant at all. • Our sample testing has concluded that we are satisfied with the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. • We are satisfied over the allocation of the grants between specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES. Our testing identified a schools capital grant was being reflected as capital expenditure in the Council's ledger. At year end, this total capital grant is being capitalised to the asset for that school on the balance sheet. However, the Council should only be capitalising the amount of grant that was actually spent by the school. This balance was £1,492k. We have also identified grants classified as Receipts In Advance on the balance sheet, but the Council had yet to received the monies. These grants were incorrectly classified. See page 32 for the adjusted misstatements.	Blue

2. Financial Statements: key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £4.5m	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 General Fund, rather than the HRA. The Council has amended their policy and has charged MRP on these General Fund properties as expected in 2022/23. This explains the MRP increase from £1,857k in 2021/22 to £4,472k in 2022/23.	• 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. • The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year. The Council has amended their MRP policy for 2022-23. The revised Minimum Revenue Provision states that assets acquired to rehouse families affected by the Grenfell fire that are transferred to HRA will be subject to a nil MRP provision, while those retained within the General Fund will be subject to MRP provision up to the time of any transfer to the HRA. So any assets retained in the General Fund are now subject to MRP.	Light Purple

2. Financial Statements: Information Technology

This section provides an overview of results from our assessment of Information Technology (IT) environment and controls which included identifying risks from the use of IT related to business process controls relevant to the financial audit. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.

			ITGC control area rating			
IT application	**Level of assessment performed**	**Overall ITGC rating**	**Security management**	**Technology acquisition, development and maintenance**	**Technology infrastructure**	**Related significant risks/other risks**
SAP	ISAE 3402 Report Review	🟢	🟢	🟢	🟢	Not Applicable
Management Reports Incorporated for Councils Fixed Assets system (RAM)	ITGC assessment (design, effectiveness only)	🟡	🟡	🟢	🟢	We have raise some findings over segregation of duties, password parameters and audit logs. These are detailed in appendix B of the report.

Assessment

- 🔴 Significant deficiencies identified in IT controls relevant to the audit of financial statements
- 🟡 Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
- 🟢 IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
- ⚫ Not in scope for testing

2. Financial Statements: matters discussed with management

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

Significant matter	Commentary	Auditor view and management response
During the audit, national news headlines reported that many Local Authorities had Reinforced Autoclaved Aerated Concrete (RAAC) within their buildings. RAAC is a lightweight form of concrete used in roof, floor, cladding and wall construction in the UK from the mid-1950s to the mid-1980s. The limited durability of RAAC roofs and other RAAC structures has long been recognised; however recent experience indicates that the problem may be more serious than previously appreciated and that many building owners are not aware that it is present in their property. RAAC has been found in a wide range of buildings including schools.	The Council's surveys have not identified any RAAC within any of its schools. The Council is continuing to follow guidance and undertake surveys of its other buildings. At this stage there has not been any RAAC identified.	We are satisfied that the Council continue to follow government guidelines and at this stage there is no evidence of RAAC or impairment needed to any of the Council's assets.

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, which is included in the Audit and Transparency Committee papers.
Audit evidence and explanations	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 remain of a good standard.
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. We wrote to those solicitors who worked with the Council, 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.

2. Financial Statements: other communication requirements

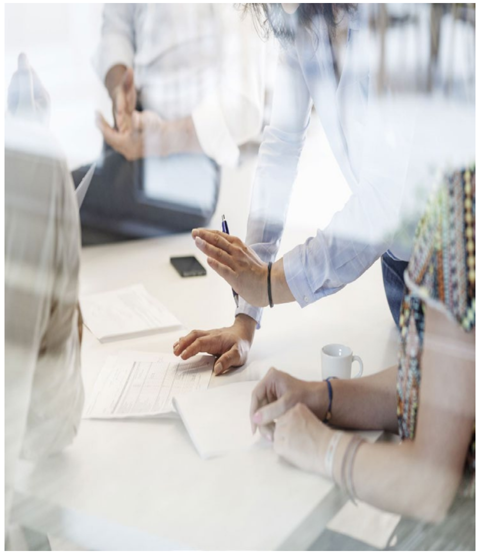
Our responsibility

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 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 the environment in which it operates • the Council's financial reporting framework • the Council'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 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. We plan to issue an unmodified opinion in this respect
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 [a] significant weakness/es. We have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2022/23 audit of royal Borough of Kensington and Chelsea Council in the audit report due to the Value for Money work not having been completed. We have 3 months from the opinion date to complete this work.



3. Value for Money arrangements (VFM)

Approach to Value for Money work for 2022/23

The National Audit Office issued its guidance for auditors in April 2020. 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.

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

3. VFM: our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor’s Annual Report. We expect to issue our Auditor’s Annual Report by end of January 2024. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

At this stage we have not identified any risk of significant weakness.

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 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 E.

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.

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. The following non-audit services were identified.

Service	Fees £	Threats identified	Safeguards
Audit related			
Certification of Teacher's Pension Return	10,000	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 £10,000 in comparison to the total fee for the audit of £161,150 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.
Certification of Housing Capital receipts grant	60,375	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 £60,375 in comparison to the total fee for the audit of £161,150 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.
Certification of Housing Capital Receipts	7,500	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 £7,500 in comparison to the total fee for the audit of £161,150 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

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit and Transparency Committee None of the services provided are subject to contingent fees.

4. 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 Council 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 Council or investments 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 Council 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 Council.
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 Council, 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.

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Appendices

A. Communication of audit matters to those charged with governance

B. Action plan – Audit of Financial Statements

C. Follow up of prior year recommendations

D. Audit Adjustments

E. Fees and non-audit services

F. Auditing developments

A. Communication of audit matters to those charged with governance

Our communication plan	Audit Plan	Audit Findings
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. Action Plan –Audit of Financial Statements

We have identified three 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 2023/24 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	Information Technology The following findings were identified from our IT review of the Council's fixed asset system (RAM). • We identified two business users who have been assigned 'Super user' administrative access to Management Reports Incorporated (MRI). These officers also hold business /financial reporting roles, this creates a segregation of duties conflict. • There are limited password parameters setup for the Council's fixed assets system RAM. • We noted that audit logs are configured to capture security event logs for MRI. However, management does not perform monitoring of logged activities such as privileged users or failed logins.	We raised the following recommendations: • We recommend that password parameters for Management Reports Incorporated (MRI) system should be configured to meet best practice guidelines such as those recommended by NCSC. Where configuration settings cannot be strengthened due to system limitations, management should undertake a risk assessment and implement additional compensating controls. • If incompatible business functions are granted to users due to organisational size constraints, management should ensure that there are review procedures in place to monitor activities e.g. reviewing reconciliations of account balances. • Management should formally review critical information security events logs for the purpose of detecting inappropriate or anomalous activity through use of generic accounts. This should include: ➢ login activity; ➢ unauthorized access attempts; and ➢ privileged user activity. These reviews should ideally be performed by knowledgeable individuals who are independent of the day-to-day use or administration of these system. **Management responses** • The fixed asset register (FAR) is only used by 2 people within the Financial Reporting and Controls Team. The Group Accountant (Capital) is responsible for inputting all transactions (revaluations, additions, disposals and transfers) relating to the assets and producing journals to be input into the general ledger (SAP). The Financial Accountant will assist the Group Account with the preparation of the transactions and journal inputs. The FAR balances for each asset category must balance to the Council's balance sheet values on its financial reporting system. Each year the FAR is reviewed to ensure that the opening and closing balances reconcile. If any unexpected transactions were made in the FAR these balances would not tie back to the balance sheet. The movement and closing balances of all the asset categories are audited and verified each year to ensure all transactions processed on the FAR are correct. • As the FAR is not used as much during the financial year password expiry and days between password change does not add any value to the security. Action has been taken to set parameters to increase the minimum password length, include password expiry dates, set dates between password change and inactivity period before logout. • Any changes to the FAR during the year will be picked up when the reconciliation between opening and closing balances are performed. Given that the FAR is mainly used during our closing period and all entries are checked and audited there is no need to review audit logs routinely.

B. Action Plan –Audit of Financial Statements continued

Assessment	Issue and risk	Recommendations
Medium	Bank Reconciliations Our review of the cash and bank control environment identified that there was no evidence of review and approval of bank reconciliations process before the journal posting.	Bank account reconciliations should be reviewed prior to postings. **Management response** Bank reconciliations will be reviewed by a senior independent member of the team before postings are processed.
Medium	Accrual Process Our income completeness testing identified that income was not accrued as per de minimus accrual policy of £10,000. We identified samples slightly over this amount that were not being accrued	The Council should follow its accruals policy. **Management response** The de minimis is included within the accruals guidance and communicated to finance officers annually as part of the preparation for year-end closing. For the samples identified by the auditor, the relevant finance officers have been informed of the errors and asked to work with services to ensure the policy is adhered to.
Medium	Cyber Security To enable effective cyber and information risk management the Council needs to understand what data and information it has within it's IT systems. This should then be classified based on sensitivity and importance (both to the entity and related individuals / organisations). This approach and the different classifications should be formally documented through a classification policy. The council does not have a formal data classification policy with supporting controls	The council should implement a formal data classification policy with supporting controls **Management response** The Council will aim to implement a data classification policy by 31 March 2024 with supporting controls to ensure it is effective.

Controls

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

C. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2021/22 financial statements, which resulted in 3 recommendations being reported in our 2021/22 Audit Findings report. We have followed up on the implementation of our recommendations and note [X] are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	**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. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity. **Prior year recommendations** 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 within IBC / SAP are standard across all Hampshire Partners. The system is operated in 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.
✓	**Declarations of interest** 13 Members and 7 officers had not returned their declarations. 1 Member passed away suddenly in March 2022, 10 are no longer Members following the elections in May 2022. For the remaining 2 the Council has reviewed the statutory register of interests to confirm no disclosures are required. The 7 officers are no longer Council employees. **Prior year recommendation** 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.	All declarations for Members have been received in 2022-23.

Assessment

✓ Action completed

X Not yet addressed

C. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	Collection Fund Creditors Our testing of Council Tax and Non Domestic Rates creditors identified credit balances owed to residents and businesses that go back several years. Recommendation Management should investigate these balances and should either pay the individuals or businesses the amounts owed or reduce any future liabilities. In circumstances where the Council are unable to locate the individual/business and the amounts are several years old the Council should, in line with the regulations consider writing these monies back.	Our sample testing identified a business rates creditor of £628 that has been owed since 2015. There remain cases whereby the Council need to complete work to identify collection fund creditors.

Assessment

✓ Action completed

X Not yet addressed

D. 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.

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 2023.

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000
Note 29. Temporary accommodation debtors included £1,019k of credit balances which have been moved to creditors. This impacts on debtors, creditors, financial instruments and cash flow notes.	0	Dr Temporary Accommodation Debtors 1,019 Cr Temporary Accommodation Creditors 1,019	0
Testing identified 3 items of £4.5m that have been classified as Grants Received In Advance, however the monies have yet to be receipted before the year end. We have confirmed that these amounts have been committed before year end therefore it is appropriate to recognise the debtor as they have, however the other side of this transaction should be classified as General Creditors and not Receipt In Advance.	0	Dr Grants Received In Advance 4,478 Cr General Creditors 4,478	0
Management had bought across the surplus net defined benefit asset from the London Pension Fund Authority scheme of £11,096k. The application of accounting standard IFRIC14 limits the measurement of the defined benefit asset to the 'present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The IFIRC 14 assessment from the actuary has an asset ceiling of £1,222k and limits the asset that can be applied to this figure resulting in a reduction of £9,874k.		Cr Pension Asset 9,874 Dr LPFA Pensions reserve 9,874	
Overall impact	**0**	**9,874**	**0**

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?
Narrative report disclosure amendment. The end of year position on the Housing Revenue Account (HRA) was amended to an in-year surplus of £7.342 million, which when added to the working balance gives £12.342 million. The Council's policy is to maintain a working balance of £5 million and therefore £7.342 million has been used to fund capital expenditure.	Management have agreed to amend the disclosure note.	✓
Note 36 Defined benefit pension schemes. The approximate monetary amount figures do not match IAS 19 report. The figures from the prior year had not been updated. The following amendments were made: • 0.1% decrease in real discount rate amended from £26,674k to £18,364k • 1 year increase in member life expectancy amended from £58,982k to £42,261k • 0.1% increase in the salary increase rate amended from £2,436k to £1,522k • 0.1% increase in the pension increase rate (CPI) amended from £24,032 to £17,115k.	Management have agreed to amend the disclosure note.	✓
Note 36 Defined benefit schemes. Fair Value of scheme assets figures not taken from the latest IAS 19 report. The LGPS scheme includes UK equities and property assets of £256,031k which was amended from £238,376k. The following amendments in the table on page 76 were also required: Equities amended from £1,251,161k to £1,233,684k Property amended from £118,548k to £137,876k Cash and cash equivalents amended from £132,492k to £130,641k. The percentages relating to these assets were also amended in line with the above adjustments.	Management have agreed to amend the disclosure note.	✓
Collection Fund Note 5. The GLA Council Tax debtor figure in the Collection Fund note was mistyped. Balance amended from £81k to £5,581k.	Management have agreed to amend the disclosure note.	✓
Accumulated balances note. The text for 'Amounts accrued at the end of the current year' also includes reversal of the prior year's accrual. Balance amended from £2,049k to £714k. Settlement or cancellation of accrual made at the end of the preceding year adjusted by £2,763k.	Management have agreed to amend the disclosure note.	✓
Note 21 . External Audit fees updated to agree to the Audit Plan.	Management have agreed to amend the disclosure note.	✓

D. Audit Adjustments

Disclosure/issue/Omission	Auditor recommendations	Adjusted?
Note 34. Nature and extent of risks arising from financial instruments. The amount the Council could borrow has been amended from £303,768k to £304,008k.	Management have agreed to amend the disclosure note.	✓
Note 37 leases. Future operating lease payments needs amending to agree to updated working paper. The following balances were amended: • Not later than one year amended from £12,572k to £12,591k • Later than one year and not later than five years amended from £63,544k to £45,239k • Later than five years amended from £94,905k to £113,503k.	Management have agreed to amend the disclosure note.	✓
Note 19 Officers Remuneration. Salary bandings over £50k for some schools did not agree to payroll reports.	Management have agreed to amend the disclosure note.	✓
Note 24 – Grenfell nursery had been bought into use prior to 31 March 2023. So a transfer of £3.5m has been made from Assets Under Construction to Other Land and buildings	Management have agreed to amend the disclosure note.	✓

D. Audit Adjustments

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	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Impact on total net expenditure £'000	Reason for not adjusting
When the Council pays capital grants to the schools, this is currently being reflected as capital expenditure in the Council's ledger. At year end, this total capital grant is being capitalised to the asset for that school on the balance sheet. However, the Council should only be capitalising the amount of grant that was actually spent by the school.	Debit Grant Income 1,492	Capital grants Received In Advance 1,492	1,492	The balance is immaterial.
Overall impact	**1,492**	**1,492**	**1,492**	

D. Audit Adjustments

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 2021/22 financial statements

Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 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.	0	(659)	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**	

E. Fees and non-audit services

	Actual Fee 2020/21	Proposed Fee 2021/22	Proposed fee 2022/23
Royal Borough of Kensington and Chelsea Council Audit (excluding VAT)	£172,997	£173,872	£161,150

Below we set out how the proposed fee reconciles to the scale fee set by the PSAA. All of these variations with the scale are consistent with the prior year and will require approval from the PSAA. Any additional work relating to the capitalisation directive will be communicated to the Audit and Transparency Committee.

	Fee 2021/22	Proposed fee 2022/23
	£	£
Scale fee published by PSAA	93,457	£109,747
Fee variation relating to PPE valuations, pensions and FRC challenge	16,875	-
Fee variation relating to reduced materiality, PPE expert journals, ISA540, infrastructure assets and FRC additional work (£2,500, £4,000 £6,000, £7,000, £5,000, £1,500)	£26,000	
Fee variation relating to pensions (not included above), reduced materiality, PPE expert journals, ISA540, infrastructure assets and FRC additional work (£3,945, £4,208, £6,000, £7,000, £2,500, £1,500)		£25,153
Fee variations relating only to 2021/22 - pension transfer from Surrey, additional work relating to valuations (£10,000 and £3,500)	13.500	
Fee variation for 2022/23 in respect of ISA 315 revised, collection fund relief testing and additional payroll testing (£5,000, £750 and £500)		6,250
Value for Money work	24,000	20,000
Total audit fees (excluding VAT)*	**£173,832**	**£161,150**

E. Fees and non-audit services

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services Grant Claims	£77,875	TBC

The fees reconcile to the amended financial statements of £78k

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

This covers all services provided by us and our network to the Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that may reasonably be thought to bear on our integrity, objectivity or independence. (The FRC Ethical Standard (ES 1.69))

F. 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: • the risk assessment process, which provides the basis for the assessment of the risks of material misstatement and the design of audit procedures • the identification and extent of work effort needed for indirect and direct controls in the system of internal control • the controls for which design and implementation needs to be assess and how that impacts sampling • the considerations for using automated tools and techniques.
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: • increased emphasis on the exercise of professional judgement and professional scepticism • an equal focus on both corroborative and contradictory information obtained and used in generating audit evidence • increased guidance on management and auditor bias • additional focus on the authenticity of information used as audit evidence • a focus on response to inquiries that appear implausible
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. • Consideration is also being given to the potential impacts on confidentiality and independence.
Fraud	The design, nature timing and extent of audit procedures performed in support of the audit opinion may change due to: • clarification of the requirements relating to understanding fraud risk factors • additional communications with management or those charged with governance
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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