

The Audit Findings for Royal Borough of Kensington and Chelsea and Kensington and Chelsea Pension fund

Year ended 31 March 2022

October 2022



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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 Grady
For Grant Thornton UK LLP
Date : October 2022

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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of Royal Borough of Kensington and Chelsea ('the Council') and Kensington and Chelsea Pension Fund ('the Pension Fund') financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

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

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

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

Our audit work was completed predominantly remotely during July to September 2022 with on site visits as appropriate to resolve queries promptly. Our findings are summarised on pages 5 to 24. We have not identified any adjustments to the Council's Financial position. We have identified an adjustment of £4,417k that reduces the investments balance within the Pension Fund's Net Asset statement. The adjustment is immaterial and management have not adjusted the financial statements. Audit adjustments are detailed in Appendix C. We have also raised recommendations for management as a result of our audit work in Appendix A. Our follow up of recommendations from the prior year's audit are detailed in Appendix B.

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

- The Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition for infrastructure assets i.e. the statutory override. This will then allow us to complete our work in this area. This is not expected until late November 2022;
- completion of testing on Housing Benefit expenditure;
- completion of testing on the transfer of data from the Surrey County Council pensions administration system to the Council's pension administration system;
- receipt of outstanding documentation and resolution of audit queries in relation to land and building revaluations including directly held properties in the Pension Fund;
- receipt and review of assurance letters from the auditors of London Pension Fund Authority;
- review of subsequent events including completion of our work on the Grenfell Fire contingent liability disclosure;
- Completion of Senior Manager, Engagement Leader and Quality team reviews and satisfactory resolution of any residual queries;
- receipt of management representation letter; 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 audit report opinion for the Council will be unmodified, with an emphasis of matter paragraph drawing attention to the disclosure in Note 32 of the contingent liability relating to the Fire tragedy. This does not constitute a qualification of the audit opinion.

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

1. Headlines

Value for Money (VFM) arrangements

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

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

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

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by February 2023. 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. The expected date of signing the financial statements opinion is anticipated to be by the end of November 2022 following the governments issue of the statutory override in accounting for infrastructure assets.

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. At this stage no significant risks have been identified.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties.

We have completed the majority of work under the Code and expect to be able to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, which will be reported in our Annual Auditor's report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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

Audit approach

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

- An evaluation of the Council and Pension Fund's internal controls environment, including its IT systems and controls;
- 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 on 25 July 2022.

Conclusion

We have substantially completed our audit of the Council and Pension Fund's financial statements and subject to outstanding matters set out on page 3 being resolved, we anticipate issuing unqualified opinions following the publication of the statutory override relating to the accounting for infrastructure assets.

Acknowledgements

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

2. Financial Statements



Our approach to materiality

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

For the Council, materiality levels remain the same as reported in our Audit Plan in July 2022.

For the Pension Fund, we revised materiality levels from those reported in our Audit Plan as a result of significantly increased gross investment asset values as at 31 March 2022.

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

	Council amount planning and final (£)	Pension Fund amount planning (£)	Pension Fund amount final (£)
Materiality for the financial statements	11,300,000	14,800,000	16,300,000
Performance materiality	7,910,000	11,100,000	12,225,000
Trivial matters	565,000	700,000	800,000



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	Relates to	Commentary
<p>Management override of controls</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 council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of controls, in particular journal entries, management estimates and transactions outside the normal course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council and Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluation of the design effectiveness of management controls over journals. • Analysis of the journals listing and determined the criteria for selecting high risk unusual journals. • Testing unusual journals recorded 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 considered their reasonableness. • Reviewed and tested transfers between the General Fund and HRA and inter group journals. <p>We have not identified any material issues from our work.</p>



2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Risk of fraud related to revenue recognition	Council and Pension Fund	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>In the Audit Plan, we reported that having considered the risk factors set out in ISA240 and the nature of the Council and Pension Fund revenue streams, we had determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate revenue recognition. • Opportunities to manipulate revenue recognition are very limited. • The culture and ethical frameworks of local authorities, including Royal Borough of Kensington and Chelsea, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we did not consider this to be a significant risk for the Royal Borough of Kensington and Chelsea or Kensington and Chelsea Pension Fund.</p> <p>There have been no changes to our assessment as reported in the Audit Plan.</p>
Risk of fraud related to expenditure recognition	Council and Pension Fund	<p>In line with the Public Audit Forum Practice Note 10, in the public sector, auditors must also consider the risk that material misstatements due to fraudulent financial reporting may arise from the manipulation of expenditure recognition (for instance by deferring expenditure to a later period).</p> <p>Having considered the risk factors set out in Practice Note 10 and the nature of the Council and Pension Fund expenditure streams, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • There is little incentive to manipulate expenditure recognition. • Opportunities to manipulate expenditure recognition are very limited. • The culture and ethical frameworks of local authorities, including Royal Borough of Kensington and Chelsea, mean that all forms of fraud are seen as unacceptable. <p>Therefore, we do not consider this to be a significant risk at for the Royal Borough of Kensington and Chelsea or 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	Relates to	Commentary
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings, Heritage Assets and Investment Property on an annual basis to ensure that the carrying value is not materially different from the current value or fair value (for surplus assets and Investment properties) at the financial statements date. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (£1.8 billion) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Management has engaged the services of a valuer to estimate the current value as at 31 March 2022.</p> <p>We therefore identified valuation of land and buildings, heritage assets and investment properties, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • 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. <p>As detailed on page 3, at the time of writing, our audit procedures in response to this risk remain underway. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of pension fund net asset</p> <p>The Council's pension fund net asset, as reflected in its balance sheet as the net defined benefit asset, represents a significant estimate in the financial statements.</p> <p>The pension fund net asset is considered a significant estimate due to the size of the numbers involved (£163 million in the Council's Balance Sheet as at 31 March 2022) and the sensitivity of the estimate to changes in key assumptions.</p> <p>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.</p> <p>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.</p> <p>The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability.</p> <p>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.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> 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 pension fund asset and liability and 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. <p>We have not identified any material misstatements in response to this risk.</p> <p>We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the LPFA pension fund liability balance. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Completeness of provisions and contingent liabilities</p> <p>In 2021/22, the Council 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 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, and as such a provision could not be recognised and an estimate of the value of the contingent liability could not be reliably made.</p> <p>We identified the completeness of short- and long-term provisions recognised and disclosure of contingent liabilities as a significant risk of material misstatement.</p>	Council	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> Reviewed disclosure and classification of short- and long-term provisions and assessed whether they meet the requirements of the CIPFA Code and IAS 37. Discussed with the Council's legal advisors, reviewed committee minutes and other sources of information to gain assurance over the completeness of provisions recognised. <p>As in previous years, in the draft financial statements management had not recognised any liabilities in the draft financial statements as a result of the Fire tragedy, on the basis that the outflow of economic benefits, as a result of the criminal investigation or any civil claims, could not at the reporting date be considered 'probable', which is required for the recognition of a provision under the applicable accounting framework. This is because the enquiry and investigations into the tragedy are ongoing and yet to conclude in terms of liability and apportionment of liability. In addition, the value of any potential civil or criminal liability could not be quantified, as financial quantum was yet to be presented in the civil claims process and the criminal investigation is yet to conclude.</p> <p>Instead, a contingent liability, being a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the authority, had been disclosed in Note 32 to the financial statements.</p> <p>We have referred to management's disclosure of a contingent liability in an emphasis of matter paragraph in our audit opinion, to draw the attention of users of the financial statements to the information contained within it. This does not constitute a qualification of the audit opinion.</p> <p>Our work on the Grenfell Fire disclosure remains in progress and we are awaiting the management update on the latest position. Following these discussions we will consider whether any updates to the financial statements are required in line with the requirements of International Accounting Standard 10.</p>
<p>Completeness and accuracy of data transferred to the new pensions administration system</p> <p>The Council decided in February 2020 to bring pension administration back in-house from Surrey County Council on 1 April 2021. This move resulted in transitioning data from Surrey County Council's pension fund administration system to the Council's system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of any data transfer from the previous system.</p>	Council and Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> Completed an information technology (IT) environment review to document, evaluate and test the IT controls operating within the new pensions administration system. Mapped the closing balances from Surrey County's pension administration system to the opening balance position in the new pensions administration system to ensure accuracy and completeness of the financial information. Sample tested information from the old system to agree to the new system, and from the new system to the old system. Documented of controls in place around the data transfer, including liaising with the external provider to understand their work on the transfer. <p>As detailed on page 3, at the time of writing, our audit procedures in response to this risk remain underway. To date, no issues have been identified which require reporting to those charged with governance. This position will be updated to the date of issuing the final version of this report and our audit opinions. Should any material issue arise in the final stages of our work, we will report this to you</p>

2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
<p>Valuation of level 3 investments and of investments in directly-held property</p> <p>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.</p> <p>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 (£83 million in the Pension Fund's Net Assets Statement as at 31 March 2021) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.</p> <p>Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2021.</p> <p>The Pension Fund has also invested in directly held property. This valuation also represents a significant estimate by management. Management will need to ensure that these assets are subject to a 31 March 2022 valuation.</p>	Pension Fund	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Evaluated management's processes for valuing Level 3 investments. • Reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments, to ensure that the requirements of the Code were met. • Independently requested year-end confirmations from investment managers and the custodian. • For a sample of investments, tested the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciled those values to the values at 31 March 2022 with reference to known movements in the intervening period. • In the absence of available audited accounts, evaluated the competence, capabilities and objectivity of the valuation expert. • Where available, reviewed investment manager service auditor report on design and operating effectiveness of internal controls. • Evaluated management's processes and assumptions for the calculation of the estimated direct property valuation, the instructions issued to valuation experts and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Written to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code were met. • Engaged our own valuer to assess the instructions to the Pension Fund direct property valuer, the valuer's report and the assumptions that underpin the valuation. <p>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 2021 audited figure adjusted for cash movements from 1 January 2022 to 31 March 2022. The custodian's estimate does not account for the market movement between 1 January 2022 to 31 March 2022. Once the movement in markets is factored into the valuation, the Private Equity investments reduced by £4,417k.</p> <p>As detailed on page 3, at the time of writing, our audit procedures in response to this risk remain underway. Should any material issue arise in the final stages of our work, we will report this to you.</p>

2. Financial Statements – new issues and risks - Council

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

Issue	Commentary
<p>Valuation of Infrastructure Assets</p> <p>The Code requires infrastructure to be reported in the Balance Sheet at depreciated historical cost, that is historic cost less accumulated depreciation and impairment. In addition, the Code requires a reconciliation of gross carrying amounts and accumulated depreciation and impairment from the beginning to the end of the reporting period. The Council has material infrastructure assets, at a gross /net value basis, there is therefore a potential risk of material misstatement related to the infrastructure balance.</p>	<p>Audit procedures undertaken in response to the identified risk included:</p> <ul style="list-style-type: none"> • Reconciling the Fixed Asset Register to the Financial statements. • Considered the reasonableness of depreciation charge to Infrastructure assets. • Obtained assurance that the Useful Economic Life applied to Infrastructure assets is reasonable. • Documented our understanding of management’s process for derecognising Infrastructure assets on replacement and obtain assurances that the disclosure in the PPE note is not materially misstated. <p>Our initial work identified that the Council has not been fully derecognising infrastructure assets upon replacement. This is consistent with other Council’s. We are awaiting for CIPFA to issue an update to the Code of Practice on Local Authority Accounting to remove the requirement to report on Gross Book Value and Accumulated Depreciation for infrastructure assets. In addition, the Department for Levelling Up, Housing and Communities will issue an update to the Local Authority Capital Finance and Accounting Regulations to remove the requirement to consider component derecognition i.e. the statutory override. This will then allow us to complete our work in this area.</p>

2. Financial Statements – key judgements and estimates - Council

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Land and Building valuations: Other Land and Buildings £539m Investment Properties £235m</p>	<p>Other land and buildings which were revalued during the year comprise £312m 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 (£227m) are not specialised in nature and were required to be valued at existing use value (EUV) at year end.</p> <p>The Council engaged Jones Lang LaSalle to complete the valuation of properties as at 31 March 2022. 99% of total other land and buildings assets were revalued during 2020/21.</p> <p>The total year end valuation of land and buildings was £538.8m, a net increase of £18.3m from 2020/21 (£520.5m). This net decrease arises from the valuation process in combination with additions to and enhancements of property assets during the year.</p>	<p>Our work on your property valuations is ongoing.</p> <ul style="list-style-type: none"> We have assessed management's expert, JLL, to be competent capable and objective. The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. 99% of properties have been valued as at 31 March 2022. We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for JLL, the valuation methodology and approach, and the resulting assumptions and any other relevant points. We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. Valuation methodologies applied are consistent with those applied in the prior year. We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. 	TBC

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Council dwellings valuations – £854m	<p>The Council owns 6,713 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.</p> <p>The Council has engaged its JLL valuer to complete the valuation of these properties. The year end valuation of Council Housing was £854m, a net increase of £36m from 2020/21 (£818m).</p>	<p>Our work on your property valuations is ongoing. At this stage:</p> <ul style="list-style-type: none"> 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 method 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 properties have been valued as at 31 March 2022. 	TBC

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment																								
Net pension asset – £163m	<p>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.</p> <p>The latest full actuarial valuation was completed as at 31 March 2019. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return.</p> <p>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 £273m in the overall net pension fund asset in 2021/22.</p>	<ul style="list-style-type: none"> 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 our comparison of actuarial assumptions: <table border="1" data-bbox="943 588 1917 1011"> <thead> <tr> <th>Assumption</th> <th>Actuary Value</th> <th>PwC range</th> <th>Assessment</th> </tr> </thead> <tbody> <tr> <td>Discount rate</td> <td>2.7%</td> <td>2.7% - 2.75%</td> <td>●</td> </tr> <tr> <td>Pension increase rate</td> <td>3.20%</td> <td>3.05% - 3.35%</td> <td>●</td> </tr> <tr> <td>Salary growth</td> <td>4.20%</td> <td>4.15% - 4.30%</td> <td>●</td> </tr> <tr> <td>Life expectancy – Males currently aged 45 / 65</td> <td>22.9 / 21.4</td> <td>21.4 - 24.3 20.1 - 22.7</td> <td>●</td> </tr> <tr> <td>Life expectancy – Females currently aged 45 / 65</td> <td>26.1 / 24.1</td> <td>24.8 - 26.7 22.9 - 24.9</td> <td>●</td> </tr> </tbody> </table> <ul style="list-style-type: none"> 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 2021/22 valuation method. We have completed the same testing as above in relation to the Net LPFA pensions asset of £3.4m 	Assumption	Actuary Value	PwC range	Assessment	Discount rate	2.7%	2.7% - 2.75%	●	Pension increase rate	3.20%	3.05% - 3.35%	●	Salary growth	4.20%	4.15% - 4.30%	●	Life expectancy – Males currently aged 45 / 65	22.9 / 21.4	21.4 - 24.3 20.1 - 22.7	●	Life expectancy – Females currently aged 45 / 65	26.1 / 24.1	24.8 - 26.7 22.9 - 24.9	●	Light purple
Assumption	Actuary Value	PwC range	Assessment																								
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Life expectancy – Males currently aged 45 / 65	22.9 / 21.4	21.4 - 24.3 20.1 - 22.7	●																								
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Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Provision for NNDR appeals - £15.7m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2021/22, 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 decreased by £3.7m largely due to the release of Material Change of Circumstances (MCC) NNDR appeals. These were NNDR appeals on the basis of business altering their premises as a reaction to Covid-19. The Government Bill in the year sets in legislation the government's commitment to rule out MCC appeals relating to Covid-19 so these provisions were released.	<ul style="list-style-type: none"> 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

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Grants Income Recognition and Presentation- £373m	<p>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:</p> <ul style="list-style-type: none"> the Council will comply with the conditions attached to the payments, and the grants or contributions will be received. <p>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 £373m of grants to the Consolidated Income and Expenditure Statement in 2021/22.</p> <p>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 £67.5m.</p> <p>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 not appear in the Consolidated Income and Expenditure statement.</p>	<ul style="list-style-type: none"> 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. 	Light purple

Assessment

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

2. Financial Statements - key judgements and estimates - Council

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision - £1.8m	<p>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.</p> <p>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.</p> <p>For assets acquired to rehouse families affected by the Fire tragedy, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, the Council's policy is to charge nil MRP as long as these properties are held for this purpose, on the basis that this assessment is consistent with the treatment of comparable HRA assets.</p> <p>The year end MRP charge was £1,857k, a net increase of £315k from 2021/22.</p>	<ul style="list-style-type: none"> The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council as part of the Treasury Strategy in March 2020. There have been no changes to the Council's MRP policy since 2020/21 The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year. <p>The Council's decision not to charge MRP against borrowing incurred for the acquisition of housing assets held in the General Fund contravenes the statutory guidance as, for these assets, no compensatory charge is made from the HRA to the Major Repairs Reserve.</p> <p>Additional audit procedures were undertaken and we are satisfied that the impact of this issue in the current year, and cumulatively since this policy was implemented, is not material to the financial statements.</p> <p>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.</p>	Blue

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- 2022 Grant Thornton UK LLP Under management's process is appropriate and key assumptions are neither optimistic or cautious

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Private Equity Investments – £121.4m	<p>The Pension Fund has investments in Private Equity funds that are valued on the net assets statement as at 31 March 2022 at £121.4m.</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 2021 which are audited. The value of the investment has increased by £138m in 2021/22, due to a combination of purchases, sales and changes in market value.</p>	<ul style="list-style-type: none"> 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 2021 We have assessed the consistency of the estimate against peers and industry practice We have reviewed the reasonableness of the increase in the estimate We have assessed the adequacy of disclosure of estimate in the financial statements Testing identified that the funds are valued using the December 2021 values adjusted for cash movements between 1 January and 31 March 2022. However, fund manager reports received after the accounts had been prepared also take into account market movements. The actual value of the 31 March 2022 investments taking account of these market movements was £4.4m lower. 	Blue
Level 3 Directly-Held Property Investments – £73.1m	<p>The Pension Fund holds investments in directly-held property to the value of £73.1m. 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 2022, on a fair value basis.</p>	<p>Our work on your property valuations is ongoing. At this stage</p> <ul style="list-style-type: none"> We have assessed management's expert, JLL, to be competent capable and objective. The valuer has correctly prepared the valuation using fair value methodology. We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for JLL, the valuation methodology and approach, and the resulting assumptions and any other relevant points. We have carried out testing of the completeness and accuracy of the underlying information provided to the valuer used to determine the estimate and have no issues to report. We have agreed the valuation reports provided by management's expert to the fixed asset register and to the financial statements. 	Light purple

Assessment

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

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

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £656m	<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 2022 at £656m.</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> <p>The value of the investments have decreased by £682m in 2021/22, largely driven by a transfer from level 2 to level 1 as Blackrock assets transition from the Aquila Fund into the new target fund. At the year end the investments had been segregated by Blackrock and were fully quoted so have been categorised as Level 1 investments.</p>	<ul style="list-style-type: none"> We have assessed the appropriateness of the underlying information used to determine the estimate. We have assessed the consistency of the estimate against peers and industry practice. We have reviewed the reasonableness of the increase in the estimate. We have assessed the adequacy of disclosure of estimate in the financial statements. 	<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 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.
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 and Pension Fund during the year, to confirm the completeness of provisions and contingent liabilities. All responses requested have been received.
Accounting practices	We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on page 3 which, as at the date of writing, have not yet been provided. The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit. The quality of working papers provided by the finance team to the audit team was high.

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"> 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. <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 Council 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"> 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. <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"> 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	<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 – refer to appendix E</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • 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. <p>We have nothing to report on these matters.</p>
Specified procedures for Whole of Government Accounts	<p>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.</p> <p>Note that work is not required as the Council does not exceed the £2billion threshold.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2021/22 audit of Royal Borough of Kensington and Chelsea Council in the audit report, as detailed in Appendix E, due to the Value for Money work has yet to be received and we are yet to complete our work on the Pension Fund Annual Report.</p>



3. Value for Money arrangements

Approach to Value for Money work for 2021/22

The National Audit Office issued its guidance for auditors in April 2020. The Code requires 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. An audit letter explaining the reasons for the delay is attached in the Appendix F to this report. We expect to issue our Auditor's Annual Report by 28 February 2023. 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. At this stage we have not identified any significant risks.

5. Independence and ethics

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

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

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

Details of fees charged are detailed in Appendix D.

Transparency

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

5. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified. We have detailed below the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Housing Benefit Assurance Process	35,000	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 £35,000 in comparison to the total fee for the audit of £173,872 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.
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,500	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 £5,500 in comparison to the total fee for the audit of £173,872 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.
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	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 £173,872 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.
Agreed upon procedures relating to adult learning subcontracting controls	6,000	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 £6,000 in comparison to the total fee for the audit of £173,872 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.

Appendices

A. Action plan – Audit of Financial Statements

We have identified 3 recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	<p>Journal entries control environment</p> <p>As in the prior year, we identified through our review of the journal entry control environment that:</p> <ul style="list-style-type: none"> 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. <p>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.</p> <p>This control deficiency applies to both the Council and Pension Fund. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.</p>	<ul style="list-style-type: none"> 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. <p>Management response</p> <ul style="list-style-type: none"> 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.
	<p>Related party transaction disclosures</p> <p>At the draft financial statements stage at the end of June 2022 19 members and 7 officers did not return declarations of interest which are used to determine whether any interests held give rise to related party relationships with the Council.</p> <p>At the stage of drafting this report, 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.</p>	<ul style="list-style-type: none"> 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. <p>Management response</p> <ul style="list-style-type: none"> The Council has a robust system for issuing requests to Members and Senior Officers for related party declarations. Targeted reminders are issued at regular intervals and Governance Services assist with escalation to Party Whips for progression. In the rare instances where Members do not submit a return, the Council is able to place reliance on the Statutory Register of Members Interests which must be kept updated on the Council website. The Council is therefore satisfied that no significant transactions have been excluded from the disclosure.

Controls

● High – Significant effect on financial statements

● Medium – Limited Effect on financial statements

● Low – Best practice

A. Action plan – Audit of Financial Statements

Assessment	Issue and risk	Recommendations
	<p>Collection Fund Creditors</p> <p>Our testing of Council Tax and Non Domestic Rates creditors identified credit balances owed to residents and businesses that go back over a decade.</p>	<ul style="list-style-type: none"> 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. <p>Management response</p> <p>We will introduce a new procedure to write off credits where the amount has been created more than six years ago and the resident has been contacted to request bank details to make a payment. A note will be placed on the file so that the credit can be reversed and paid to the resident</p>

Controls

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

B. Follow up of prior year recommendations

We identified the following issues in the audit of the Council's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We have followed up on the implementation of our recommendations and note 2 are still to be completed.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	<p>Minimum Revenue Provision in respect of housing assets held in the General Fund</p> <p>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.</p> <p>For assets acquired to rehouse families affected by the Fire tragedy, for which a direction has been given by the Secretary of State to hold these properties within the GF, rather than the HRA, the Council's policy is to charge nil MRP as long as these properties are held for this purpose, on the basis that this assessment is consistent with the treatment of comparable HRA assets. However in respect of these assets, no compensatory charge is made from the HRA to the Major Repairs Reserve.</p> <p>Additional audit procedures were undertaken and we are satisfied that the impact of this issue in the current year, and cumulatively since this policy was implemented, is not material to the financial statements.</p> <p>However, over the course of several years, depending on the level of capital expenditure on the General Fund housing assets which is financed through borrowing, there remains a risk that this could lead to a significant cumulative underspend on MRP and leave the assets effectively unfinanced, impacting the Council's outturn and level of reserves in future years.</p>	<p>The Council had already approved the 2021-22 MRP policy in March 2021 prior to the 2020-21 audit recommendation being made. The Council has therefore followed the approved policy so has not accounted for MRP on assets in the General Fund for 2021-22.</p> <p>The Council has however amended their MRP policy for 2022-23. The revised MRP policy 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 (this is in line with other HRA dwellings and the statutory guidance). Those retained within the General Fund will be subject to MRP provision up to the time of any transfer to the HRA. The Council is following this policy in accounting for MRP in 2022-23.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

B. Follow up of prior year recommendations continued

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
X	<p>Journal entries control environment</p> <p>We identified through our review of the journal entry control environment that:</p> <ul style="list-style-type: none"> • 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. <p>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.</p> <p>This control deficiency applies to both the Council and Pension Fund.</p> <p>Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.</p>	<p>Senior Management are still able to post journals. However, our testing has not identified any journals posted by senior management during 2021-22.</p> <p>There is still no formal two stage authorisation process for journal entries. Management remain satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.</p> <p>We are required to continue to report the deficiency in the control environment.</p>
X	<p>Two deficiencies were identified in management's process to compile the disclosure of significant transactions and balances with related parties:</p> <ul style="list-style-type: none"> • Four members did not return declarations of interest which are used to determine whether any interests held give rise to related party relationships with the Council • When challenged on whether some of the related parties disclosed met the definition of a related party, in accordance with IAS 24 and the Code of Practice on Local Authority Accounting, management was unable to provide an adequate assessment to permit auditor evaluation. 	<p>As per the financial statements note 23. the position has worsened in 2021/22 with 18 Members not returning their declarations at the time the draft accounts were presented to audit. At the stage of drafting this report, 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.</p> <p>As per the prior year some of the related party disclosures do not meet the definition of a related party, in accordance with IAS 24 and the Code of Practice on Local Authority Accounting in that the Members do not have control over the Council or the related party. The Council has continued to disclose these transactions in the spirit of openness and transparency.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

C. Audit Adjustments Council

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

Impact of adjusted and unadjusted misstatements

At the time of writing, no misstatements above our triviality level have been identified that affect the Council's financial position.

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 omission	Management Response	Adjusted?
Note 15 - The Council classified £11.577 million of Section 106 and private contributions within long term liabilities, as capital grants received in advance. These amounts are not directed to be used for capital purposes and should be classified as revenue.	Management has agreed to reclassify the Section 106 liabilities.	✓
Note 23 – The Council has 2 Members (25%) that are Members on the Western Riverside Waste Authority Board. The Council should describe the relationship with Western Riverside Waste Authority together with any transactions within the related parties disclosure note.	Management has agreed to include the disclosure	✓
Annual Governance Statement – The Head of Internal Audit Opinion stated 83% of the audits undertaken receiving a positive assurance opinion. This was a typo and the percentage of adequate audits was 86%.	Management has agreed to update the disclosure	✓
Note 1 critical judgments refers to the pension asset, but its unclear what the actual judgement is and this disclosure should relate to judgements not involving the use of estimates	Management has clarified the judgement.	✓
Note 1 The Grenfell tower judgement also relates to an estimate so should be in note 2	Management has agreed to move the disclosure	✓
Note 19 the Council has not disclosed the amount incurred for the interim director from PwC within the senior management remuneration note.	Management has agreed to amend the disclosure within Note 19 to disclose the amounts incurred by the Council for the provision of key management personnel within the note	✓
Note 33 Cash and cash equivalents in note 33 is £55,888k, but in the balance sheet it is £66,718k. The disclosure within the financial instruments note 33 includes the Money Market Funds/Deposits but excludes the other cash and bank items.	Management have agreed to amend the disclosure note.	✓
Note 33 the prior year money market funds are incorrectly classified as amortised cost instead of fair value through profit and Loss.	Management have amended the 2020/21 disclosure including a prior period adjustment.	✓
Note 33 refers to liabilities where fair value is not disclosed. It would be clearer to state fair value has been determined as equivalent to the carrying value.	Management have agreed to amend the disclosure note.	✓

C. Audit Adjustments Council

Disclosure omission	Management response	Adjusted?
Accounting policy 7 states that the annual leave accrual is reviewed every 3-5 years. Our review of the calculation demonstrated that it has been adjusted in the year to take account of the reduction in total annual leave days allowed to be carried forward from 13 to 10 and also officers salaries at the end of March. Therefore, the note requires updating.	Management have agreed to amend the disclosure note.	✓
Narrative report paragraph 3 (under introduction) required updating to clarify the Council Tax increase of 0.99% and Adult Social Care Precept 1% relates to 2022/23 year. Paragraph 4 was updated to state that during the year, the Council spent £162m on services, excluding corporate items (e.g. taxation, non-specific grants, interest).	Management have agreed to amend the disclosure note.	✓
Note 23 – Related Party disclosures. The Council should add further nature of accounting arrangements under S113 Tri-Borough arrangements.	Management have agreed to amend the disclosure note.	✓
Note 23 – Related Party disclosures. Additional disclosure made to the Charity table for the Clement James Centre due to declaration received during the audit	Management have agreed to amend the disclosure note.	✓
Collection Fund classification misstatement of £546k between long and short term Council Tax Bad Debt Provision.	Management have agreed to amend the disclosure note.	✓
Expenditure and Funding analysis Note. Misclassification of £420k between Resources and Customer Delivery and Other General Fund Income and Expenditure.	Management have agreed to adjust for the classification misstatement. There is no impact on the Consolidated Income and Expenditure Statement.	✓
Reclassifications and transfers Other Land and buildings and Assets Under Construction needed to include £26,694k adjustment out of Assets Under Construction into Other Land and buildings as the asset was operational in March 2022	Management have agreed to amend the disclosure note.	✓
Note 9 –Expenditure and Funding analysis. The other HRA income and expenditure prior year entry under expenditure charged to General Fund and HRA balances does not agree to the prior year audited statements. The figure in the draft accounts is (916k) whereas this should be nil.	Management have agreed to amend the disclosure note.	✓
Note 33 – Change to Fair values. PWLB loan Fair Value amended to £245,101k, PWLB Current Amount amended to £236,748k and Liabilities where Faire Value is not disclosed amended to £316,094k	Management have agreed to amend the disclosure note.	✓
Note 34 Financial Instruments disclosure. Adjustments were made to the 1% sensitivity analysis. Increase in internal interest and impact on CIES amended to £(1,400k), share of overall impact amended to £140k and decrease in fair value amended to £(31,313k)	Management have agreed to amend the disclosure note.	✓

C. 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 2020/21 financial statements. The



Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £' 000	Reason for not adjusting
<p>Section 106 contributions received in advance</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>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.</p>		(659k)	<p>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.</p>
Overall impact	£0	£(659)	

C. Audit Adjustments Pension Fund

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

Impact of adjusted misstatements

At the time of writing, no misstatements affecting the Fund Account or Net Assets Statement have been identified through audit testing that management are amending. There is one unadjusted misstatement which is detailed on the following page.

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 omission	Management Response.	Adjusted?
Note 4 discloses the estimation uncertainty for Private Equity Investments, but the note omitted disclosures relating to the material Direct Property Investments.	Management have agreed to update Note 4 to include the estimation uncertainty for Direct Property Investments.	✓
Note 11 as at the 31 March 2022 BlackRock investments were not held in any pooled fund. The details provided by Blackrock proved that the assets were all separately held as stocks/shares which can be agreed to quoted prices. Therefore, the assets should be classified in Note 11 as equities.	Management have agreed to reclassify the Blackrock Investments from Pooled Investments to Equities.	✓
Note 16 fair valuations. Table on page 104 contained 2 columns labelled as Level 2 investments.	The £746m are the Blackrock investments which have now been re-classified as Level 1.	✓
Note 16 page 106 not all categories map to previous analysis in earlier notes	Management have agreed the following amendments: <ul style="list-style-type: none"> • Note 16 –Note to be amended to make it clear the UK and Overseas Bonds relates to the liquidity fund • Note 11 – To be amend the current classification reading “private equity / Infrastructure” to just “Private equity”. There is no infrastructure investments. • Note 16 – As above an additional line has been inserted to detail the classification of the London CIV. 	✓

C. Audit Adjustments Pension Fund

Disclosure omission	Management Response.	Adjusted?
Note 16 page 106 Directly managed property - observable/unobservable inputs column did not have any unobservable inputs listed.	Management has agreed to amend the Directly managed property note to detail the unobserved inputs are rental values, yields and vacancy rates.	✓
Note 16 – A sensitivity analysis was added for private equity movements to demonstrate that for a material movement the valuation would have to change by 12.19%,	Management have agreed to disaggregate the risk against material classes.	✓
Note 17 Nature and Risk of Financial Instruments Page 107. The sensitivity analysis for price risk was based on 'a single spread of variance for the relevant asset class'. However, different sensitivities apply to different classes so for material balances additional disaggregation is required.	Management have agreed to disaggregate the risk against material classes.	✓
Note 17 Nature and Risk of Financial Instruments Page 108. Th sensitivity analysis for interest rate was unclear what % has been used or why this was appropriate.	Management has agreed to include the percentage interest rate used and to explain this rate.	✓
Note 17 page 108 currency risk. Individual currencies have different risks so there should be additional disaggregation of the material currencies.	Management has agreed to disaggregate the risk against material currencies	✓

C. Audit Adjustments Pension Fund

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 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	Fund Account £'000	Net Assets 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 2021 audited figure adjusted for cash movements from 1 January 2022 to 31 March 2022. The custodian's estimate does not account for the market movement between 1 January 2022 to 31 March 2022. Once the movement in markets is factored into the valuation, the Private Equity investments reduced by £4,417k.	Dr Change in market value of investments 4,417	Credit Level 3 investments 4,417	The proposed adjustment is not material.
Overall impact	£4,417	£4,417	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatements identified in prior year that need to be evaluated for their continuing impact.



D. Fees

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

The fees reconcile to the financial statements.

Audit fees	Proposed fee £	Final fee
Council Audit	173,872	TBC
Audit of subsidiary company Repairs Direct Limited	18,000	TBC
Pension Fund audit	50,183	TBC
Total audit fees (excluding VAT)	£242,055	TBC

Non-audit fees for other services	Proposed fee £	Final fee
Housing Benefit Assurance Process	35,000	TBC
Agreed-upon procedures relating to the Pooling of Housing Capital Receipts	5,500	TBC
Agreed-upon procedures relating to the Teachers' Pensions end of year certificate	7,500	TBC
Agreed upon procedures relating to adult learning subcontracting controls	6,000	TBC
Total non-audit fees (excluding VAT)	54,000	TBC

E. Audit opinion Council

Our audit opinion is included below.

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

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2022, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the HRA Income and Expenditure Statement, the Movement on the HRA Statement, the Collection Fund Account and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2022 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

E. Audit opinion Council

Conclusions relating to going concern

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

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority and the Authority's disclosures over the going concern period.

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

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

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

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

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

E. Audit opinion Council

Matters on which we are required to report by exception

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

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

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

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

As explained in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.

E. Audit opinion Council

- We enquired of senior officers and the Audit and Transparency Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers and the Audit and Transparency Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the Comprehensive Income and Expenditure Statement, and
 - accounting estimates made in respect of the valuation of assets and liabilities in the Balance Sheet.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on entries meeting the risk criteria determined by the audit team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of valuation of land and buildings, including council dwellings and investment property, and the valuation of the defined benefit pensions asset valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to valuation of land and buildings, including council dwellings and investment property, and the valuation of the net defined pensions asset.
- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA/LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion Council

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

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

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

Our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority’s arrangements in our Auditor’s Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor’s report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2022.

Responsibilities of the Authority

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

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

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

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

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

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

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

We cannot formally conclude the audit and issue an audit certificate for Royal Borough of Kensington and Chelsea for the year ended 31 March 2022 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority’s arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor’s Annual Report’
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2022.

E. Audit opinion Council

In addition, we are required to give an opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report with the pension fund financial statements included in the Statement of Accounts. The Local Government Pension Scheme Regulations 2013 require authorities to publish the Pension Fund Annual Report by 1 December 2021. As the Authority has not prepared the Pension Fund Annual Report at the time of this report, we have yet to issue our report on the consistency of the pension fund financial statements. Until we have done so, we are unable to certify that we have completed the audit of the financial statements in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2022.

Use of our report

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

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

Date:

E. Audit opinion Pension Fund

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

Opinion

We have audited the financial statements of Kensington and Chelsea Pension Fund (the 'Pension Fund') administered by Royal Borough of Kensington and Chelsea (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

In our evaluation of the Executive Director of Resources' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

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

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

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

E. Audit opinion Pension Fund

Other information

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

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

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

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

Matters on which we are required to report by exception

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

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

We have nothing to report in respect of the above matters in relation to the Pension Fund.

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

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Executive Director of Resources. The Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

E. Audit opinion Pension Fund

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit and Transparency Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit and Transparency Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - journal entries posted which met a range of criteria determined during the course of the audit, in particular those posted around the reporting date which had an impact on the fund's financial position, and
 - accounting estimates made in respect of the valuation of investment assets

E. Audit opinion Pension Fund

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Executive Director of Resources has in place to prevent and detect fraud;
 - journal entry testing, with a focus on entries meeting the criteria determined by the audit team;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments, including directly-held investments in property and the IAS 26 pensions asset valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, the significant accounting estimates related to the valuation of level 3 investments, including directly-held investments in property, and the IAS 26 pensions asset valuation.

- Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

E. Audit opinion Pension Fund

Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Paul Grady, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor

London

[Date]

F. Audit letter in respect of delayed VFM work

Dear Councillor Hargreaves Chair of Audit and Transparency Committee

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

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

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We now expect to publish our report no later than 28 February 2023.

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

Yours faithfully

Iain Murray
Director



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