











# Significant findings – audit risks

## Risks identified in our Audit Plan

## Commentary

1

### The risk that revenue includes fraudulent transactions

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.

### Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of your and the Fund's revenue streams, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:

- there is little incentive to manipulate revenue recognition;
- opportunities to manipulate revenue recognition are very limited; and
- the culture and ethical frameworks of local authorities, including yourselves, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the Pension Fund.

2

### Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The group and Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.

We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for you and the Fund, which was one of the most significant assessed risks of material misstatement.

### Auditor commentary

We have completed the following work in relation to this risk:

- evaluated the design effectiveness of management controls over journals;
- analysed the journals listing and determined the criteria for selecting high risk and unusual journals;
- gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence; and
- evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions

We are currently finalising our work in the following area:

- review of large and unusual journal entries for testing back to supporting documentation.

Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, we have not identified any material issues from our work at this stage that we need to report to you.

# Significant findings – audit risks

Risks identified in our Audit Plan	Commentary
<p><b>3 Valuation of Level 2 Investments</b></p> <p>While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.</p> <p>We therefore identified the valuation of the Fund's Level 2 investments as an other risk</p>	<p><b>Auditor commentary</b></p> <p>We have completed the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>gained an understanding of the Fund's process for valuing Level 2 investments and evaluated the design of the associated controls;</li> <li>assessed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments;</li> <li>requested year-end confirmations from investment managers and custodian; and</li> <li>agreed the reconciliation of information provided by the individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances.</li> </ul> <p>Subject to the satisfactory completion of outstanding matters set out on pages 3 to 4, we have not identified any material issues from our work at this stage that we need to report to you.</p>

# Significant findings - Going concern

## Our responsibility

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

## Going concern commentary

### Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

### Auditor commentary

- The Pension Fund has sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the Royal Borough of Kingston upon Thames Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

### Work performed

Detail audit work performed on management's assessment

### Auditor commentary

- We have reviewed management's assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 78%.
- The Council continue to pay deficit funding contributions into the pension fund in 2018/19.
- The fund continues to operate as usual.

### Concluding comments

### Auditor commentary

- We are satisfied that it is appropriate that the Pension Fund Financial Statements are prepared on a Going Concern basis.

# 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
① <b>Matters in relation to fraud</b>	We have previously discussed the risk of fraud with the Audit Panel. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures. We are awaiting formal written confirmation of this from you.
② <b>Matters in relation to related parties</b>	We are not aware of any related parties or related party transactions which have not been disclosed.
③ <b>Matters in relation to laws and regulations</b>	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We are awaiting formal written confirmation of this from you.
④ <b>Written representations</b>	A letter of representation has been requested from the Pension Fund, which will be included in the July Audit Panel papers.
⑤ <b>Confirmation requests from third parties</b>	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received a response from all third parties.
⑥ <b>Disclosures</b>	Our review found no material omissions in the financial statements.
⑦ <b>Audit evidence and explanations/significant difficulties</b>	All information and explanations requested from management was provided.
⑧ <b>Matters on which we report by exception</b>	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are awaiting the draft Pension Fund Annual report for review. The Annual Report has a later deadline of 1 December 2019.

## Independence and ethics

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant matters that may bear upon the integrity, objectivity and independence of the firm or covered persons (including its partners, senior managers, managers and network firms. In this context, we disclose the following to you:

- In June 2019 we identified an ethical matter between Grant Thornton UK LLP and the Council. An elected member of the Council became an employee of Grant Thornton on 19 November 2018. The individual concerned had no connection with our public services team, and worked in a different department. Nevertheless, such a circumstance is prohibited by the Financial Reporting Council's Ethical Standard section 2.61 and Public Service Audit Appointment (PSAA) Ltd's Terms of Appointment paragraph 2.30. We disclosed the matter to PSAA. We also alerted the Director of Corporate and Commercial to the issue. Subsequently, the individual concerned has left the employment of the firm. PSAA and the Council have confirmed that they are satisfied with the resolution of the matter and there are no barriers to us continuing in our role as your external auditors.

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 December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are set out in the following table

	Proposed fee	Final fee
Pension Fund Audit	£16,170	£16,170
Total audit fees (excluding VAT)	£16,170	£16,170

### Audit and Non-audit related services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. There were no other services provided to the Pension Fund.

# Audit Adjustments

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

## Impact of adjusted misstatements

We have not identified any adjustments that impact on your Pension fund's financial position.

## Misclassification and disclosure changes

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

Disclosure / Omission	Detail	Adjustment agreed?
Disclosure	The legal ruling around age discrimination (McCloud - Court of Appeal) has implications for your pension scheme. Discussion has been ongoing across the local government sector regarding the potential impact of the ruling on the financial statements of local government bodies. This has impacted all councils. Your actuary has provided you with their estimated impact on your present value of future retirement benefits The expected impact was a £3.6m increase in the present value of future retirement benefits. This is not material and is purely a disclosure note for the pension fund financial statements so there is no impact on the Pension Fund at this stage. The impact will be taken account of through future actuarial valuations of the Fund.	✓

## Impact of unadjusted misstatements

There are no unadjusted misstatements above our reporting level.

## Impact of prior year unadjusted misstatements

There are no adjustments impacting on the prior year.

# Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report. This is a draft version that will be updated.

## Independent auditor's report to the Members of Royal Borough of Kingston upon Thames council on the pension fund financial statements

### Opinion

We have audited the pension fund financial statements of Royal Borough of Kingston upon Thames (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 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 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund 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.

### Who we are reporting to

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.

### Conclusions relating to going concern

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

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

### Other information

The Director of Corporate and Commercial is responsible for the other information. The other information comprises the information included in the Annual, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund 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.

# Audit opinion

In connection with our audit of the pension fund 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 financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work 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 this other information, we are required to report that fact.

We have nothing to report in this regard.

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

In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund 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 have reported a matter 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 have made 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 have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

## **Responsibilities of the Authority, the Director of Corporate and Commercial 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 Director of Corporate and Commercial. The Director of Corporate and Commercial is responsible for the preparation of the Statement of Accounts, which includes the pension fund 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 2018/19, which give a true and fair view, and for such internal control as the Director of Corporate and Commercial determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Director of Corporate and Commercial 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 the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit, governance and Standards Committee is Those Charged with Governance.

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund 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 pension fund financial statements.

# Audit opinion

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

Iain Murray  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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