

Audit Findings (ISA 260) Report for Royal Borough of Kensington and Chelsea

Year ended 31 March 2025

6 November 2025



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29 September 2025

Dear Members of the Audit and Transparency Committee

Audit Findings for Royal Borough of Kensington and Chelsea for the year ended 31 March 2025

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 and confirmation of auditor independence, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management and the Audit and Transparency Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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We encourage you to read our transparency report which sets out how the firm complies with the requirements of the Audit Firm Governance Code and the steps we have taken to manage risk, quality and internal control particularly through our Quality Management Approach. The report includes information on the firm's processes and practices for quality control, for ensuring independence and objectivity, for partner remuneration, our governance, our international network arrangements and our core values, amongst other things. This report is available at [transparency-report-2024-.pdf \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2024-.pdf).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Darren Wells

Director
For Grant Thornton UK LLP

Chartered Accountants

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Headlines

This page and the following summarises the key findings and other matters arising from the statutory audit of Royal Borough of Kensington and Chelsea Council (the ‘Council’) and the preparation of the Council’s financial statements for the year ended 31 March 2025 for the attention of those charged with governance.

Financial statements

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

- the Council’s financial statements give a true and fair view of the financial position of the Council and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

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

Our audit work was completed during July–September 2025. The Council provided us with a good set of draft financial statements supported by a full set of working papers. The 2024–25 audit was more challenging than prior years due to the change in the general ledger system and the continued reliance on Hampshire County Council to respond to requests for evidence and further information. The finance team have engaged fully with the audit process and have been proactive in chasing information from the services and from Hampshire County Council. Nevertheless, this has meant that at the time of writing there are a number of areas as noted below still in progress.

Our findings are summarised on pages 6 to 43.

We have identified one adjustment to the financial statements of £1.9m that reduces the Council’s General Fund position. We have identified other audit adjustments which are set out on pages 33–38, some of which impacts on the balance sheet and cash flow statement. We have also raised a recommendation for management as a result of our audit work. These are set out at pages 40–42. Our follow up of recommendations from the prior year’s audit are detailed at page 43. One recommendation was implemented. There were still some delays in completing bank reconciliations during the year, but the Council are now up to date.

Our work is substantially complete and there are no matters of which we are aware that would require modification of our audit opinion (Appendix D), subject to the following outstanding matters:

- Completion of revaluations testing on Property Plant and Equipment and Investment Properties.
- Completion of schools cash testing.
- Completion of our work on the new leasing standard IFRS16.
- Receipt of requested International Accounting Standard 19 (pensions benefit) assurances from the auditor of London Pensions Fund Authority (EY).

Headlines

Financial statements continued

Continued from previous page

- Completion of senior management reviews.
- Receipt of management representation letter.
- Review of the final set of financial statements

We have concluded that the other information to be published with the financial statements, including the Annual Governance Statement, is consistent with our knowledge of the Council and with the financial statements we have audited. Our anticipated financial statements audit report opinion will be unmodified. We anticipate signing your accounts following the Audit and Transparency Committee.

Value for money (VFM) arrangements

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

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

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

We have completed our VFM work, which is summarised on page 43, and our detailed commentary is set out in the separate Auditor's Annual Report, which is presented alongside this report. We are satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Headlines

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 completed the majority of work required under the Code. However, we cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until the following have been completed:

- The pension fund has yet to issue the 2024-25 Pension Fund Annual Report. Once this is received, we will need to check that the Pension Fund Annual Report is consistent with the financial statements.
- We need to wait for confirmation from the NAO that the group audit for Whole of Government Accounts has been certified and that no further work is required to be undertaken to discharge the auditor’s duties in relation to consolidation returns under paragraph 2.11 of the Code.
- We have yet to issue the closure certificate for the 2023/24 year. We are waiting a reply from our regulator Public Sector Audit Appointments in relation to our response to an objection on the previous year financial statements.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2025.

Significant matters

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

Headlines

Implementation of IFRS 16

Implementation of IFRS 16 Leases became effective for local government bodies from 1 April 2024. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS 17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

Local government accounts webinars were provided for our local government audit entities during March, covering the accounting requirements of IFRS 16. Additionally, CIPFA has published specific guidance for local Council practitioners to support the transition and implementation on IFRS 16.

Introduction

IFRS 16 updates the definition of a lease to:

- “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.”

In the public sector the definition of a lease is expanded to include arrangements with nil consideration. This means that arrangements for the use of assets for little or no consideration (sometimes referred to as peppercorn rentals) are now included within the definition of a lease.

IFRS 16 requires the right of use asset and lease liability to be recognised on the balance sheet by the lessee, except where:

- leases of low value assets
- short-term leases (less than 12 months).

This is a change from the previous requirements under IAS 17 where operating leases were charged to expenditure.

The principles of IFRS 16 also apply to the accounting for PFI liabilities.

The changes for lessor accounting are less significant, with leases still categorised as operating or finance leases, but some changes when an Council is an intermediate lessor, or where assets are leased out for little or no consideration.

See page 18 for details of the work undertaken on the implementation of the new leases standard.

Our approach to materiality

As communicated in our Audit Plan we determined materiality at the planning stage as £16.3m based on 1.9 % of prior year gross expenditure. At the year-end, we reconsidered planning materiality based on the 2024-25 draft financial statements. The Gross Costs of Services expenditure had increased, but this would not have a significant impact on our materiality levels, so we have left the materiality unchanged from that disclosed within the Audit Plan.

A recap of our approach to determining materiality is set out below.

Basis for our determination of materiality

- We have determined materiality at £16.3m based on professional judgement in the context of our knowledge of the Council. We have used gross expenditure as the benchmark for materiality due to the key users of the financial statements including the population of Kensington and Chelsea and central government are more focussed on service delivery. The levels of expenditure is the most significant financial element that would indicate the level of services being provided.
- We have used 1.9% of gross expenditure as the basis for determining materiality. This is below the 2% cap for Council's that spend over £500m.
- As detailed in the Audit Plan, we increased our threshold for materiality from 1.5% to 1.9% as a result of a benchmarking exercise so that we are more in line with the sector averages. The impact has been a very small decrease in some of the sample sizes across the non-significant risk areas of the audit.

Performance materiality

We have determined performance materiality at £11.4m, this is based on 70% of headline materiality. The performance materiality has remained the same as the level reported in the Audit Plan.

Specific materiality

- Due to sensitivity of cash, we have set a lower materiality at £5.7m for the cash balance.

Reporting threshold

- We will report to you all misstatements identified in excess of £0.815m, in addition to any matters considered to be qualitatively material.

Our approach to materiality

A summary of our approach to determining materiality is set out below.

	Council (£)	Qualitative factors considered
Materiality for the financial statements	16,300,000	This benchmark is determined as 1.9% of the Council’s Gross Cost of Services Expenditure in 2023/24. The increase in expenditure in 2024-25 was not significant enough to increase our materiality.
Performance materiality	11,410,000	Performance Materiality is based on 70% of the overall materiality.
Specific materiality for cash	5,705,000	Due to sensitivity of cash, we have set a lower materiality at £5.7m. This balance is 50% of performance materiality.
Reporting threshold	815,000	We will report all misstatements over £815k to the Audit and Transparency Committee

Overview of audit risks

The below table summarises the significant and other risks discussed in more detail on the subsequent pages.

Significant risks are defined by ISAs (UK) as an identified risk of material misstatement for which the assessment of inherent risk is close to the upper end of the spectrum due to the degree to which risk factors affect the combination of the likelihood of a misstatement occurring and the magnitude of the potential misstatement if that misstatement occurs.

Other risks are, in the auditor’s judgement, those where the risk of material misstatement is lower than that for a significant risk, but they are nonetheless an area of focus for our audit.

Risk title	Risk level	Change in risk since Audit Plan	Fraud risk	Level of judgement or estimation uncertainty	Status of work
Management override of controls	Significant	↔	✓	Low	●
Valuation of the net pensions asset	Significant	↔	✖	High	●
Valuation of land and buildings, Council Dwellings, and Investment Properties	Significant	↔	✖	High	●
New System Implementation Incomplete or inaccurate transfer to the new ledger	Significant	↔	✖	Low	●
Completeness of provisions and contingent liabilities	Other	↔	✖	Low	●
Implementation of new leasing standard IFRS 16	Other	↔	✖	Medium	●

- ↑ Assessed risk increase since Audit Plan
- ↔ Assessed risk consistent with Audit Plan
- ↓ Assessed risk decrease since Audit Plan

- Not likely to result in material adjustment or change to disclosures within the financial statements
- Potential to result in material adjustment or significant change to disclosures within the financial statements
- Likely to result in material adjustment or significant change to disclosures within the financial statements

Significant risks

Risk identified

Management override of controls

Under ISA (UK) 240, there is a non-rebuttable presumption that the risk of management override of controls is present in all entities.

We have therefore identified management override of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk of material misstatement.

Audit procedures performed

Audit procedures undertaken in response to the identified risk included:

- Evaluation of the design and implementation of management controls over journals.
- Analysis of the journals listing and determination of the criteria for selecting high risk unusual journals.
- Identification and testing of unusual journals made during the year and the accounts production stage for appropriateness and corroboration.
- Gaining an understanding of the accounting estimates and critical judgements applied by management and consideration of their reasonableness.
- Reviewed and tested transfers between the General Fund and HRA.

Key observations

As in the prior year, we identified through our review of the journal entry control environment on the SAP ledger that:

- Senior personnel are registered as managers and are theoretically able to post non-balance sheet journal entries.
- There is no two-stage authorisation process for journal entry postings in place.

Our testing of journal entries has not identified any material misstatements or indications of management override of controls. This issue has also been resolved with the implementation of the Oracle ledger system.

There is no evidence that senior management have posted any journals. Management is satisfied that compensatory controls exist and budget monitoring processes would identify any material instances of unusual activity.

The Council's new financial system Oracle requires journals to go through a two stage authorisation process. Our testing identified that taxation journals do not require authorisation. This presents a segregation of duties issue, as tax journals can be posted by a single individual without a secondary review or approval. This increases the risk of errors or inaccuracies. Our testing has not identified any errors in the tax journals.

Significant risks

Risk identified

Presumed risk of fraud in revenue recognition

Under ISA (UK) 240, there is a rebuttable presumed risk of material misstatement due to the improper recognition of revenue.

We have completed a risk assessment of all revenue streams for the Council. We have rebutted the presumed risk that revenue may be misstated for all revenue streams.

This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the revenue streams both individually and collectively.

Audit procedures performed

Having considered the risk factors set out in ISA 240, and the nature of the revenue streams of Royal Borough of Kensington and Chelsea, we have determined that it is likely that the presumed risk of material misstatement due to the improper recognition of revenue can be rebutted, because:

- there is little incentive to manipulate revenue recognition; and
- opportunities to manipulate revenue recognition are very limited.

Therefore, we do not consider this to be a significant risk for the Council.

Key Observations

The risk has been rebutted. Our substantive testing of fees and charges, government grant income, Council Tax and Business Rates income has been completed. There are no material misstatements to report.

Risk of fraud in expenditure recognition

Practice Note 10 (PN10) states that as most public bodies are net spending bodies, the risk of material misstatements due to fraud related to expenditure may be greater than the risk of material misstatements due to fraud related to revenue recognition. As a result under PN10, there is a requirement to consider the risk that expenditure may be misstated due to the improper recognition of expenditure.

We have completed a risk assessment of all expenditure streams for the Council. We have considered the risk that expenditure may be misstated due to the improper recognition of expenditure for all expenditure streams and concluded that there is not a significant risk.

This is due to the low fraud risk in the nature of the underlying nature of the transaction, or immaterial nature of the expenditure streams both individually and collectively

The risk has been rebutted. Our substantive testing of operating expenditure including year end cut off testing has not identified any misstatements that we are required to report.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of net pension asset The pension fund net asset, as reflected in the balance sheet (£39.8m) as other long-term assets, represents a significant estimate in the financial statements due to the size of the numbers involved and the sensitivity of the estimate to changes in the key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice on Local Authority Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculations. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. Small changes in key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 asset. 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 Council's pension fund net asset as a significant risk.	Audit procedures undertaken in response to the identified risk included: • Updating our understanding of the processes and controls put in place by management to ensure that the pension fund net asset is not materially misstated. Our procedures included evaluating the design of the associated controls. • Evaluating the instructions issued by management to their management experts (the actuary) for this estimate and the scope of the actuary's work. • Assessing the competence, capabilities and objectivity of the actuary who carried out the pension fund valuation. • Testing the consistency of the disclosures in the notes to the core financial statements with the reports from the actuary. • Undertaking 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. • Gaining assurances over the validity and accuracy of assets, membership, contributions and benefits data sent to the actuary by the Pension Fund. • Reviewing the actuary's calculation of the asset ceiling and ensuring that this has been estimated in accordance with the requirements of the accounting standard IFRIC14.	Management's actuary assumptions were within the ranges suggested by our auditor's expert (PWC). The Council had considered the potential impact of the accounting standard IFRIC 14 on the amount of the pension fund surplus that could be recognised on the balance sheet. The Council obtained an actuarial valuation of the credit ceiling and applied this to the surplus position. We have not identified any material misstatements to the net pension asset. We are awaiting receipt of requested confirmations from the London Pension Fund Authority auditor over the London Pensions Fund Authority balances. These are small in comparison with the Council scheme. The Council has disclosed the Pension Fund Asset net position on the balance sheet. The net position includes the £815k deficit on the London Pensions Fund Authority (LPFA) scheme. As the LPFA and Council are separate funds they should have been accounted for gross. As the deficit position on the London Pensions Fund Authority scheme is small, the Council has decided not to amend the statements.

Significant risks

Risk identified	Audit procedures performed	Key observations
Valuation of Land and Buildings, Council Dwellings, and Investment Properties The Council revalues its Dwellings, Land and Buildings and Investment Properties on an annual basis to ensure that the carrying value is not materially different from the current value or fair value at the financial statements date. The valuation represents a significant estimate by management due to the size of the numbers involved and the sensitivity of the estimate to changes in the key assumptions.	Audit procedures undertaken in response to the identified risk included: • Evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts, and the scope of their work. • Evaluated the competence, capabilities and objectivity of the valuation expert. • Confirmed the basis on which the valuation was carried out to ensure that the requirements of the Code are met. • Challenged the information and assumptions used by the valuer to assess the completeness and consistency with our understanding, which included engaging our own valuer to assess the instructions issued by the Council to their valuer, the scope of the Council's valuers' work, the Council's valuers' reports and the assumptions that underpin the valuations. • Tested, on a sample basis, revaluations made during the year to see if they had been input correctly into the Council's asset register. • Assessed the value of a sample of assets in relation to market rates for comparable properties. • Tested a sample of beacon properties in respect of council dwellings to consider whether their valuation assumptions are appropriate and whether they are truly representative of the other properties within that beacon group. • Evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different from current value at year end.	Our audit work in this area remains ongoing. Our testing identified the following: • Kelso Cochrane and Acklam Road properties had been transferred from Assets Under Construction into Council Dwellings during the year, but the properties had not been subject to revaluation. The Council has subsequently engaged with their valuer to determine the revalued amount of the dwellings. The value of these properties once applying the Social Housing Discount factor is £22,280k lower than the amount recognised at the year-end. • Princess Beatrice House valued at £7,794k was included within the Council Dwellings category. The property was acquired to provide supported housing for homeless men and should have been categorised within the Other Land and Building category. • Part of Kelso Cochrane House (175–177 Kensal Road) property is made up of dwellings, a supermarket and a medical centre. In valuing the property an incorrect floor area was applied which led to an understatement of the Other Land and Buildings for £822k and an overstatement on Council Dwellings and Investment Property for £765k and £56k respectively Management have amended their financial statements for the above findings.

Significant risks

Risk identified	Audit procedures performed	Key observations
New System Implementation Incomplete or inaccurate transfer to the new ledger	Audit procedures undertaken in response to the identified risk included: • Obtaining an understanding of the process implemented for the new system implementation. • Using IT audit specialists to assist with auditing the data migration. • Performing completeness and accuracy reconciliation checks on data migration by comparing the transactions and balances in the predecessor (SAP) and new (Oracle) IT systems. • Reviewing and testing the journals control environment on the Oracle system.	We have reviewed and tested the reconciliation of balances from the SAP system onto the Oracle Ledger and are satisfied that the transfer was accurate and complete. With the exception of the segregation of duties relating to taxation journals raised on page 12, we do not have any further issues to report.
The Council implemented Oracle, the new Enterprise Resource Planning (ERP) system from 15 April 2025. As a result of the system transition, the Council will terminate its shared service agreement with Hampshire County Council (HCC), responsible for managing the SAP system, and bring Finance, Procurement, HR and Payroll operations in house. This transition will impact the 2024/25 financial statements, as the year end data will transfer from SAP to Oracle and the Council’s closing process and compilation of the financial statements will be completed on Oracle. Key finance data is transferred from the legacy financial system SAP into Oracle. This involves receiving transaction records from HCC stored in excel/csv spreadsheets, transforming data through a Middleware Solution, and subsequently uploading the data into Oracle supported by Version 1 (Systems Implementation partner). With transfers of data between systems there is always a risk over the completeness and accuracy of the transfer. This risk is heightened by the necessity for manual data manipulation during the transfer process.		

Other risks

Risk identified	Audit procedures performed	Key observations
Completeness of provisions and contingent liabilities As at 31 March 2024, the Grenfell Settlement provision stood at £42m relating to settlements for the BLJ group, legal fees associated with Bindman group, restorative justice contribution, and the chief fire officers, police and a few other individual claims. During the year, there has been an agreement and settlement of the Bindman legal fees, agreed settlement for the BLJ group comprising 96 claims and settlement of claims relating to chief fire officers. Following the Public Inquiry report in September 2024, the Metropolitan Police investigation into potential criminal charges arising from the tragedy has commenced. The Council is in the process of seeking recovery for its costs in relation to the tragedy which the other defendants will need to contribute to.	Audit procedures undertaken in response to the identified risk included: • Discussion of the accounting with senior officers at the Council, review of legal documents and other sources of information to gain assurance over the completeness of provisions recognised. • Substantive testing of movements in the Grenfell Settlement provision in the year. • Review and testing of the remaining £19m provision as at 31 March 2025. • Review of disclosure and classification of short and long-term provisions and any potential contingent asset (due to recovery of costs from other defendants) to ensure that they meet the requirements of the CIPFA Code and International Accounting Standard 37.	The Council has followed the requirements of International Accounting Standard 37 in the accounting for the legal settlements that were reached in the year. There remains an estimated £19m provision to account for the restorative justice and anticipated further legal costs. The Council has retained an element of contingent liability relating to any potential liabilities arising from the Metropolitan Police investigation and potential fines that may result from this process. We are satisfied that the provision for the Grenfell Fire Tragedy is materially fairly stated.

Other risks

Risk identified	Audit procedures performed	Key observations
Implementation of IFRS 16 The CIFPA Code of practice on Local Government Accounting requires authorities to apply the new leasing standard IFRS 16 from 1 April 2024. Under the new standard the current distinction between operating and finance leases is removed for lessees and, subject to certain exceptions, lessees will recognise all leases on their balance sheet as a right of use asset and a liability to make the lease payments. There is a risk that the Council’s processes do not capture all the arrangements that convey the right to use an asset, resulting in a failure to correctly account for the new leasing standard IFRS16.	Audit procedures undertaken in response to the identified risk included: - Evaluating the Council’s processes to identify all arrangements conveying the use of an asset to assess the impact of IFRS16 on the 2024/25 financial statements. - Verifying and testing supporting documentation to ensure that the impact on assets, liabilities, reserves and income and expenditure has been appropriately recorded within the financial statements. - Assessing the completeness of the disclosures made in the 2024/25 financial statements with reference to the 2024/25 CIFPA Code of practice on Local Authority Accounting.	In advance of the new standard the Council had undertaken a significant amount of work to identify arrangements that contain the right of use of an asset. This included review of lease registers together with other less formal arrangements and a reconciliation to prior year’s operating lease commitments disclosures. The Council has accounted for those arrangements that meet the criteria of the new leasing standard. This has resulted in the following additions to the balance sheet: £11.618 million Property, plant and equipment (Right Of Use Assets) £7.383 million Non-current creditors (Lease Liabilities) £3.735 million Current creditors (Lease Liabilities) Our work in this area is ongoing. At this stage we do not have any significant issues to report.

Other findings – key judgements and estimates

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

Assessment:

- [Red] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Amber] 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
- [Green] We consider management’s process is appropriate and key assumptions are neither optimistic or cautious

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment
Other land and buildings valuations £598m at 31 March 2025	Other land and buildings which were revalued during the year comprise £371m 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. The Council engaged Sanderson Weatherall to complete the valuation of properties as at 31 March 2025. A total of £587m (98%) of other land and buildings assets were revalued during 2024/25. The remainder of £11m were assets acquired or transferred during the year and were therefore not subject to valuation. The total year end valuation of land and buildings was £598m, a net increase of £31m from 2023/24 (£567m). This net increase arises from the valuation process in combination with additions and enhancements of property assets during the year. Sanderson and Weatherall have valued 98% the Council’s land and buildings.	• We have assessed management’s expert, Sanderson and Weatherall, to be competent capable and objective. • The valuer has correctly prepared the valuation using DRC on a modern equivalent asset basis for specialised properties, and EUV for non-specialised properties. There has not been any changes to the valuation methodology. • We have sample tested 68% (by value) of the Council’s other land and buildings valuations. • We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for Sanderson and Weatherall, the valuation methodology, assumptions and approach, and the resulting valuation reports. • 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.	● [Green]

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment
Valuation of council dwellings £874m at 31 March 2025	The Council owns 6,744 dwellings in the Housing Revenue Account and is required to revalue these properties in accordance with DCLG’s Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer Sanderson and Weatherall to complete the valuation of these properties. The year end valuation of Council Housing was £874m, a net increase of £20m from 2023/24 (£854m).	• We have no concerns over the competence, capabilities and objectivity of your valuation expert. • No issues were noted with the completeness and accuracy of the underlying information used to determine the estimate. • There have been no changes to the valuation methodology this year. • The valuer has correctly prepared the valuation using the stock valuation guidance issued by the government department and has ensured the correct factor has been applied when calculating the Existing Use Value – Social Housing (EUV-SH) value disclosed within the accounts. • All Council dwellings have been valued as at 31 March 2025. Due to the findings outlined on page 15, we have provided an Amber rating.	 [Amber]

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Valuation of investment property £252m at 31 March 2025	The Council has engaged Sanderson and Weatherall to complete the valuation of properties as at 31 March 2025. The Investment properties have been valued at fair value as defined under International Financial Reporting Standard 13 and as adopted by the Code. This is essentially the price that would be received to sell an asset, in an orderly transaction between market participants at the 31 March 2025. The total year end valuation of investment property was £252m, a net increase of £2m from 2023/24 (£250m).	• We have assessed management's expert, Sanderson and Weatherall, to be competent capable and objective. • The valuer has correctly prepared the valuation using the fair value as at 31 March 2025. • All properties have been valued as at 31 March 2025. Additions and transfers in year of £9m are not subject to valuation. • We engaged our own valuation specialist, Wilks Head and Eve, to provide a commentary on the instruction process for Sanderson and Weatherall, the valuation methodology and approach, and the resulting assumptions and valuation report. • 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.	 (Green)

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment																							
Valuation of net pension asset £40m at 31 March 2025 IFRIC 14 addresses the extent to which an IAS 19 surplus can be recognised on the Balance Sheet as an asset and whether any additional liabilities are required in respect of onerous funding commitments.	The Council’s net pensions asset comprises assets and liabilities relating to the Royal Borough of Kensington and Chelsea Pension Fund and London Pension Fund Authority Local Government Pension Schemes. The Council uses Hymans Robertson LLP to provide actuarial valuations of the Council’s assets and liabilities derived from these schemes. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed as at 31 March 2022. A roll forward approach is used in intervening periods which utilises key assumptions such as life expectancy, discount rates, salary growth and investment return. Given the significant value of the net pension fund assets, small changes in assumptions can result in significant valuation movements. There has been a net decrease of £357m in the overall net pension fund asset in 2024/25. This relates to the application of the credit ceiling which is impacted by assumptions.	• We have assessed the actuaries, Hymans Robertson, 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><tr><th>Assumption</th><th>Actuary value</th><th>PwC range</th><th>Assessment</th></tr><tr><td>Discount rate</td><td>5.8%</td><td>5.8-5.85%</td><td>Reasonable</td></tr><tr><td>Pension increase rate</td><td>2.75%</td><td>2.7-2.8%</td><td>Reasonable</td></tr><tr><td>Salary growth</td><td>3.75%</td><td>3.7-3.8%</td><td>Reasonable</td></tr><tr><td>Life expectancy – Males currently aged 45/65</td><td>21.9/22.7 Years</td><td rowspan="2">*See Note below</td><td>Reasonable</td></tr><tr><td>Life expectancy – Females currently aged 45/65</td><td>24.5/25.7 Years</td><td>Reasonable</td></tr></table> * Figures within the IAS19 results schedule may now show individual employer level life expectancies. As a result of the significantly larger differences at individual employer level (in comparison to LGPS fund averages), the life expectancy ranges may now be significantly wider at both the lower and upper bounds. The potential difference in range can be around 8-10 years at the extremes of individual employer level life expectancies. • We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate. • We have confirmed there were no significant changes in 2024/25 valuation method. An asset ceiling has been applied that has reduced the value of the net asset taken to the balance sheet by £763m. • We have completed the same testing as above in relation to the Net LPFA pensions liability of £0.815m.	Assumption	Actuary value	PwC range	Assessment	Discount rate	5.8%	5.8-5.85%	Reasonable	Pension increase rate	2.75%	2.7-2.8%	Reasonable	Salary growth	3.75%	3.7-3.8%	Reasonable	Life expectancy – Males currently aged 45/65	21.9/22.7 Years	*See Note below	Reasonable	Life expectancy – Females currently aged 45/65	24.5/25.7 Years	Reasonable	● (Green)
Assumption	Actuary value	PwC range	Assessment																							
Discount rate	5.8%	5.8-5.85%	Reasonable																							
Pension increase rate	2.75%	2.7-2.8%	Reasonable																							
Salary growth	3.75%	3.7-3.8%	Reasonable																							
Life expectancy – Males currently aged 45/65	21.9/22.7 Years	*See Note below	Reasonable																							
Life expectancy – Females currently aged 45/65	24.5/25.7 Years		Reasonable																							

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment
Provisions for NNDR appeals £12m	The Council is responsible for repaying a proportion of successful rateable value appeals. In 2024/25, management continued to use 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 £5m.	• 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. As part of our audit testing, we requested management to compare the refunds paid against the original estimated provisions. As part of this exercise, management identified that the provision had not taken account of the appeals success rate and of any reliefs applied to business rates. Management have re-worked the provision and identified that the provision is overstated by an estimated £4.067m. We have therefore assessed that management’s original estimate was over cautious, but not materially misstated. Management has amended the financial statements.	[Grey]

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management’s approach	Auditor commentary	Assessment
Grants Income Recognition and Presentation- £438m	Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that: - the Council will comply with the conditions attached to the payments, and - the grants or contributions will be received. Amounts recognised as due to the Council are not credited until conditions attached to the grant or contribution have been satisfied. The Council has credited £438m of grants to the Consolidated Income and Expenditure Statement in 2024/25. £338m were coded to the Net Cost of Services and £100m to non specific grants. 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 to be returned if not spent. The balances at the year-end for these grants is £117m.	- We are satisfied with the grants tested that the Council’s judgement on whether it is acting as the principal or agent is appropriate. - 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. Our grants testing identified that the Housing Benefit balance of £117,772k should be £113,685k which matches with the final claim form. The difference is a prepayment of benefits which were paid to recipients for £4,088k, which was coded against grant income rather than against housing benefits expenditure. Management are amending their financial statements.	[Grey]

Other findings – key judgements and estimates

Key judgement or estimate	Summary of management's approach	Auditor commentary	Assessment
Minimum Revenue Provision - £12m	The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance. MRP is required to be charged with respect to borrowing obtained as part of acquiring assets to be held in the General Fund (GF). No MRP charge is made in respect of borrowing for the acquisition of assets held in the Housing Revenue Account (HRA). According to regulations, this is on the basis that HRA assets should be self-financing, with local authorities being required to make an annual charge from the HRA to their Major Repairs Reserve in place of MRP, to maintain functionality of housing assets. For assets acquired to rehouse families affected by the Grenfell Fire tragedy, a direction has been given by the Secretary of State to hold these properties within the General Fund, rather than the HRA. The Council has charged MRP on these General Fund properties as expected in 2024/25. The MRP has increased from £6.1m in 2023/24 to £12.2m in 2024/25.	• The MRP charge for the year has been calculated in accordance with the methodologies permitted in the statutory guidance. • The Council's policy on MRP in relation to borrowing taken out for the acquisition of non-housing General Fund assets complies with statutory guidance. • The Council's policy on MRP was discussed and agreed with those charged with governance and approved by full council. • The level of increase in the MRP charge is reasonable in the context of additional borrowing incurred during the year.	 (Green)

Other findings

Issue	Commentary	Auditor View
On 1 August 2025, a winding-up order was made against NRS Healthcare Limited. The Council has a soft loan with NRS Healthcare Limited valued at £3,014k within the Debtors balance. Given the financial position of the company there remains a doubt over whether the Council would receive any further loan repayments.	As part of the framework agreement for the loan the Council agreed to purchase and obtain the title of equipment totalling approximately £4m. The Council has submitted a claim over these assets.	There remains some doubt over whether the Council would receive any funds/assets from the liquidation process. The balances are well below our materiality levels, but the Council should consider disclosing a Post Balance Sheet Event in relation to the wind up of NRS Healthcare Limited.

Other findings – Information Technology

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

IT application	Level of assessment performed	ITGC control area rating				Related significant risks/other risks
		Overall ITGC rating	Security management	Technology acquisition, development and maintenance	Technology infrastructure	
SAP General ledger	ITGC assessment (design and implementation) ISAE 3402 controls report review.	Green	Green	Green	Black	Relates to management override of controls.
RAM (Asset Management system)	ITGC assessment (design and implementation).	Amber	Amber	Green	Black	Relates to valuation of Property Plant and Equipment and Investment properties valuations.
Altair (Pensions administration system)	ITGC assessment (design and implementation) ISAE 3402 controls report review.	Green	Green	Green	Black	Relates to the valuation of the net pension benefit asset.

- Assessment:**
- [Red] Significant deficiencies identified in IT controls relevant to the audit of financial statements
 - [Amber] Non-significant deficiencies identified in IT controls relevant to the audit of financial statements/significant deficiencies identified but with sufficient mitigation of relevant risk
 - [Green] IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
 - [Black] Not in scope for assessment

Other findings IT deficiencies

Issue	Commentary	Management Response
Information Technology Control deficiencies Our information Technology work has not identified any issues with the general ledger or pensions administration systems. We have identified deficiencies associated with the Council’s Asset Management software (RAM)	The deficiencies identified with the RAM asset management system were as follows: • We identified two finance users who have been assigned ‘Super User’ administrative access to RAM. As they hold financial reporting roles, this creates a segregation of duties conflict. • While password parameters are setup for RAM, password complexity has not been enabled. Furthermore, the password expiry term for application users is customizable and this access is assigned to superusers. As all current users are superusers, any users can modify the password expiry time for other superusers. • We noted that audit logs are configured to capture security event logs for RAM. However, management does not perform monitoring of logged activities such as privileged users or failed logins	The Council is satisfied that there is a low level of risk associated with the deficiencies. Management has amended access to the asset register for the Head of Financial Reporting to view only. The fixed asset register is only used by three officers. The asset register for each asset category must balance to the Council’s balance sheet values on its financial reporting system. Each year the fixed asset register is reviewed to ensure that the opening and closing balances reconcile. If any unexpected transactions were made in the fixed asset register these balances would not agree back to the balance sheet. The movement and closing balances of all the asset categories have been audited and verified each year to ensure all transactions processed on the fixed asset register are correct. Currently, management do not have the functionality to amend the password complexity. However, management are investigating the practicalities of addressing this concern with RAM. The audit team are satisfied that the general ledger reconciles to the fixed asset register which also reconciles with the valuers reports for assets subject to valuation.

Other communication requirements

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 other 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. One Member has not returned their year end register of interest disclosure form. Management have been chasing this throughout the audit.
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 standard letter of representation has been requested from the Council. The letter is included within the Audit and Transparency Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banking and investment counterparties. This permission was granted and the requests were sent. We are awaiting direct confirmation from the bank in relation to the year end balance for 3 schools. We wrote to and received responses from the Council's Monitoring Officer, to confirm the completeness of provisions and contingent liabilities.
Disclosures	Our review found no material omissions in the financial statements.
Audit evidence and explanations	All information and explanations requested from management were provided, with the exception of those relating to the outstanding matters detailed on page 5. The financial statements were published and a full suite of supporting working papers was provided to the audit team prior to the commencement of the audit. The quality of working papers provided by the finance team to the audit team remain of a good standard.
Significant difficulties	We have not identified any significant difficulties with obtaining evidence to support transactions and balances within the financial statements.

Other responsibilities

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2024). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • The use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • For many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Council and the environment in which it operates • the Council’s financial reporting framework • the Council’s system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified; and • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Other responsibilities

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement, Narrative Report and Pension Fund Financial Statements), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to Appendix D.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit, • if we have applied any of our statutory powers or duties. • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness/es. We have nothing to report on these matters.

Other responsibilities

Issue	Commentary
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. Note that work is not required as the Council does not exceed the required threshold.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2024/25 audit of Royal Borough of Kensington and Chelsea Council in the audit report, as detailed in Appendix D, due to: • We have yet to certify the closure of the 2023/24 audit as we are waiting a reply from our regulators to our response to an objection on the previous year financial • We will need to wait for the National Audit Office to conclude their work in respect of the whole of government accounts for the year ended 31 March 2025. • We have yet to complete our work on the Pension Fund Annual Report which has a publishing deadline of 1 December 2025.

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below, along with the impact on the key statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000
A debtor balance of £1.9m has been accrued incorrectly. An officer had incorrectly posted the invoice raised to an operating expenditure code and when the year end income accruals were completed the finance team reviewed the income codes and raised another invoice unaware of the original one netting off expenditure on an incorrect code. Therefore, the Council's outturn position is overstated by £1.9m.	Debit Net Cost of Service 1,930	Credit Debtors 1,930	1,930	1,930
We identified that Kelso Cochrane and Acklam Road had been transferred from Assets Under Construction into Council Dwellings, but the properties had not been revalued. The Council has subsequently engaged with their valuer to determine the revalued amount of the council dwellings. The value of these properties once applying the Social Housing Discount factor is £22,280k lower than the amount recognised at year-end.	Debit Net Cost of service impairment loss 22,280	Credit Council Dwellings 22,280	22,280	No impact as the amount is reversed out the HRA via the MIRS and Capital Adjustment Account.

Audit adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below, along with the impact on the key statements.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Impact on general fund £'000
As part of our testing on the NNDR appeals provision we requested the Council to complete a comparison of the appeals that were paid in 2024-25 against prior year provisions. The appeals paid were lower than the original provision. Investigations have found that the provision presented was on a gross basis and does not account for any reliefs. The provision is also in at 100% success rate, but historical analysis show that the success rate is lower. The Council have reworked the provision taking account of the reliefs and historical success rates which shows a £13,556k reduction overall. Once the reduction is apportioned across the Council, GLA and Central government the reduction for the Council is £4,067k. The changes in the provision has an impact on the safety net/levy calculation. The resulting impact is to reduce NNDR income in the CIES by £11,260k with a corresponding adjustment of £11,078k to collection fund and £182k to the budget stabilisation earmarked reserves.	Cr Taxation income 4,067	Dr NNDR appeals provision 4,067	4,067	There is no impact on the general fund the £4,067k is reversed through the Movement in Reserves Statement to the Collection Fund Adjustment Account.
Overall Net impact	20,143	20,143	20,143	1,930

Audit adjustments

Misclassification and disclosure changes

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

Disclosure	Misclassification or change identified	Adjusted?
Cash Flow Statement	Our testing of the cash flow statement has identified the following two issues: 1) The movement in debtors and creditors in Note 38 is misstated by £2,371k due to late adjustments to the items that were not reflected in the cash flow statement. Decrease in creditors is overstated by £2,371k and decrease in debtors was understated by £2,371k 2) The Carrying amount of non-current assets and assets held for sale, sold or derecognised in Note 38 does not agree to the Property Plant and Equipment Note 24 and intangible assets Note 26.	✓
Movement in Reserves Note 7	Note 7 Misstatement of 23/24 balances: • Budget Stabilisation (T-out) should be £18,955k • Budget Stabilisation (23/24 balance) should be -£18,406k • Civil Claim Settlement (T-in) Should be -£5,913k • Civil Claim Settlement (23/24 balance) should be -£3,857k • Subtotal (T-out) should be £67,940k • Subtotal (T-in) should be -£61,204k • Total GF reserves (T-in) should be -£61,204k	✓
Capital Commitments Note 24	Notting Dale Heat Network. The contract was signed in 2023 and expenditure incurred in 23-24 equated to £1.5m, an associated capital commitment of £11.1m. The capital commitment should have been recorded in the prior year statements.	✓
Defined benefit schemes Note 36	The Total Post Employment Benefits charged to other Income and Expenditure in the Consolidated Income and Expenditure Statement per note 36 and actuary reports is £360,136k (£360,185k per Council Scheme and £-49k LPFA scheme). This differs from the amount in pension reserve of £359,894k. There is a £242k variance that needs to be resolved.	✓

Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Misclassification or change identified	Adjusted?
Financial Instruments Note 33	Our testing of the financial instruments note has identified the following amendments: - The carrying amount values for PWLB, Other Long Term Loans and Short Term Loans were shown at Principal amount, but should have included the accrued interest so they reconcile to the balance sheet of £508,071k. - The fair value of financial liabilities deemed equivalent to carrying amount should be £52,599k not £54,762k.	✓
Financial Instruments Liquidity risk section Note 34	The balance that the Council could externally borrow taking account of the Capital financing Requirement less borrowing results in a balance of £258.769m. The draft financial statements has £255.735m.	✓
Assets under Construction Note 24	Asset Under Construction projects of £2,838k that were ceased during the year were incorrectly presented in Reclassification and Transfers line instead of the Derecognition line within note 24.	✓
Revaluation Reserve Note 8	During our revaluation movement work, we identified that the upward and downward revaluation movement in Note 8 is misstated by £5,654k. The figures should be: Upward revaluation of assets - £33,345k Downward revaluation of assets - £33,141k	✓
Assumptions made about the future and other major sources of estimation uncertainty Note 5	The assumptions about the future and other major sources of uncertainty note included a £4m disclosure regarding a Soft loan. The loan is well below materiality threshold so there is no material uncertainty related to the loan. The note has been removed.	✓
HRA	The Housing Revenue Account net expenditure in the CIES of £68,490k does not agree to the £69,434k per the HRA. The difference of £944k are recharges that are appropriate to include in the Housing Revenue Account as a stand alone account, but should be excluded from Consolidated Income and Expenditure Statement as internal recharges are excluded from the CIES. The difference is not material.	X

Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Misclassification or change identified	Adjusted?
Heritage Assets Note 27	An 'Adjustment to opening balance' of £1,467k has been noted within Note 27. This relates to a Reclassification of Heritage Assets from Heritage Properties to Museum Collections. The adjustment to the opening balance is not permitted as it was not a material misstatement. The adjustment should be an in year amendment.	✓
Investment properties Note 25	We identified investment property assets of £4,760k that were incorrectly transferred to Assets Under Construction Property Plant and Equipment in the year. These assets are being constructed for renting out at commercial rent and will be classified as investment properties. Management has agreed that these properties should be held as asset under construction Investment Properties.	✓
Council Dwellings Note 24	Princess Beatrice House valued at £7,794k was included within the Council Dwellings category, but was acquired to provide supported housing for homeless men and should have been categorised within the Other Land and Building category.	✓
Lease Liability Note 37	The Right of Use Asset and Lease Liabilities initially recognised as at 1 April 2024 were the same value. However, there is a peppercorn lease (Beatrice Place) which was initially valued at fair value for £500k. As per the Code, peppercorn leases are accounted for in the same manner as donated assets (measured at Fair Value) and the difference between the lease payments and the fair value of the lease is credited as a gain in the surplus/deficit on the provision of services.	✓
Property Plant and Equipment Note 24	Part of Kelso Cochrane House (175–177 Kensal Road) property is made up of dwellings, a supermarket and a medical centre. In valuing the property an incorrect floor area was applied which led to an understatement of the Other Land and Buildings for £822k and an overstatement on Council Dwellings and Investment Property for £765k and £56k, respectively. Officers decided not to adjust this as the revaluation in 2025/26 year will adjust this.	X
Grant Income Net Cost of Services Note 15	The Housing Benefit balance of £117,772k should be £113,685k which matches with the final claim form. The difference is a prepayment of benefits which were paid to recipients for £4,088k, which was coded against grant income rather than against housing benefits expenditure.	✓
Property Plant and Equipment Note 24	As part of our opening balances testing we identified that Ellesmere House Plant £1,139k was classified as a separate plant item. Management confirmed that this asset was misclassified as plant, the amount relates to work carried out at Ellesmere House. The correct classification should have been an enhancement to Ellesmere House.	✓

Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Misclassification or change identified	Adjusted?
Consolidated Income and Expenditure Statement	The Social Care Grant of £18,339k was initially allocated to Resources and Customer Delivery, but should have been apportioned to Adult Social Care (ASC) and Children's Services (CS). The Council confirmed that they will amend the disclosure in the financial statements to reflect the correct allocation. The ASC and CS Gross Income should increase by £10,453k and £7,886k with a related decrease in the Resources and Customer Delivery of £18,339k.	✓
Note 6 Capital Grants Unapplied Reserve	The adjustments made in Capital Grants Unapplied Reserve shows the net impact of the capital grants recognised in the surplus/deficit on provision of services and the application of capital grants to finance capital expenditure. However, this should be separately disclosed to be consistent with the prior years and so that the application of capital grants would agree with the Note 28. The amended disclosure will be Reversal of surplus/deficit on provision of services items relating to Capital Expenditure = -£51,049k Application of Capital grants = £50,635k	✓
Note 36 Defined benefit pension schemes	The Council has disclosed the Pension Fund Asset net position on the balance sheet. The net position includes the £815k deficit on the London Pensions Fund Authority (LPFA) scheme. As the LPFA and Council are separate funds they should have been accounted for gross. As the deficit position on the London Pensions Fund Authority scheme is small, the Council has decided not to amend the statements.	X
HRA Note 4	The vacant Council dwellings valuation figure of £3,181.204m disclosed in HRA Note 4 needs updating to take account of all properties in the HRA as at 31 March 2025. The balance should be 4 times that of £823,788k to show the application of the Social Housing Discount Factor. The balance needs amending to £3,295.152m	✓
HRA Note 8	The gross total tenants arrears balances within Note 8 of £7,574k did not agree to the Council's supporting working paper/ledger of £5,714k.	✓

Audit adjustments

Misclassification and disclosure changes continued

Disclosure	Misclassification or change identified	Adjusted?
Note 8: Movement in unusable reserves	During our revaluations work, we identified assets with both revaluation and impairment reserve balances which is unusual as each asset should only have one of these. This was confirmed to be a system error which affected the prior years, resulting in a £1,897k overstatement in the revaluation reserve and an equivalent understatement in CAA. As the amount is not material, the Council has decided not to amend the statements.	X
Note 37: Leases	The Council has incorrectly calculated the future minimum lease payments receivable. The figures should be: Not later than 1 year - £14,840k 1 to 5 years - £46,744k More than 5 years - £106,619k	✓
Note 37: Leases	Disclosures relating to the impact of IFRS 16 as at 1 April 2024 incorrectly included new leases entered into during 2024/25. The correct figures should be: Right-of-use asset - £8,302k Current lease liabilities - £2,843k Noncurrent lease liabilities - £3,811k	✓
Note 37: Leases	The disclosure reconciling lease liabilities as at 1 April 2024 and operating lease commitments as at 31 March 2024 has been incorrectly calculated. The amended disclosure should be: Operating lease commitments 31 March 2024 - £111k PV of Operating lease commitments - £95k Vehicle leases - £724k Property leases - £1,138k Temporary accommodation leases - £4,698k	✓
CIES	During our sample testing for fees and charges income, we noted that the reversal of prior year accrual for capital contributions income was recorded in fees and charges instead of capital contributions income. This resulted in a disclosure misstatement of £2,138k. Due to immateriality, the Council decided not to adjust the presentation of this income. Although not impacting the surplus/deficit on provision of services, the reserve balances is affected as HRA fees and charges usually go through HRA Reserve and capital contributions income would impact the Capital Adjustment Account.	X

Audit adjustments

Impact of unadjusted misstatements

The table below provides details of misstatements identified during the audit which were not adjusted for within the final set of financial statements for The Audit and Transparency Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
Our lease testing identified that the Council did not recognise a right-of-use asset for 17-19 Maxilla Bays, despite the lease meeting IFRS 16 recognition criteria. The present value of the future lease payments is £353k and the revalued amount of the asset is £1,265k.	Dr. Depreciation - 6	Dr. Right-of-use asset - 1,265 Cr. Prepayments - 20 Cr. Lease liabilities - 353 Cr. Revaluation reserve – 898	6	There is no impact on the general fund. The £6k is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.
During our valuation work, we identified that the Pembroke Road Office site area was corrected from 3.22 to 1.98 acres, but the valuer used the old area, overstating land value by £1.25m and understating building value by the same amount. This does not affect the total property value but results in overstatements in both the revaluation reserve and impairment loss.	Cr. Impairment Loss - 1,250	Dr. Revaluation reserve - 1,250	(1,250)	There is no impact on the general fund. The £1,250k is reversed through the Movement in Reserves Statement to the Capital Adjustment Account.

Audit adjustments

Impact of unadjusted misstatements continued

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
During our sample testing of fees and charges income, we identified misstatements in four samples, all of which relate to Housing Rental Account service charges . 1. £3,042k overstatement due to inaccurate adjustments made at year-end 2. £3,239k understatement due to incorrect recording of income as a debit to the ledger 3. £2,255k overstatement as a result of incorrect recognition for payment receipts as income instead of reducing the debtor balance This totals to an overstatement in HRA Income and Debtors of £2,057k. The Council decided not to adjust for this. Since this is above trivial but below PM, we will be reporting it as part of unadjusted misstatement in the AFR.	Dr. Housing Rental Income – 2,057	Cr. Housing Rent Debtors 2,057	2,057	2,057
Overall impact of current year unadjusted misstatements	813	(813)	813	2,057

Impact of unadjusted misstatements in the prior year

The table below provides details of misstatements identified during the prior year audit which were not adjusted for within the final set of financial statements for 2023/24, and the resulting impact upon the 2024/25 financial statements. We also present the cumulative impact of both prior year and current year unadjusted misstatements on the 2024/25 financial statements. The Audit and Transparency Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £'000	Balance Sheet £'000	Impact on total net expenditure £'000	Reason for not adjusting
There is an overstatement of £1.385m within the Debtors Note 29 which does not agree to HRA Note 8. Debtors note 29 has £7,140k compared to HRA Note 8 of £5,755k. The Council has identified the misstatement after closing the accounts and has adjusted within 2024/25.	Dr Housing Revenue Account Income 1,385	Cr HRA Debtors 1,385	1,385	Balance is not material and has been adjusted in 2024-25.
The above adjustment was taken account of during 2024/25 so there is no accumulated impact at the year end.				

Action plan

We set out here our recommendations for the Council which we have identified as a result of issues identified during our audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
● Medium	Our journals testing on the Oracle general ledger system identified that tax journals can be posted by a single individual without a secondary review or approval. This increases the risk of errors or inaccuracies. This is somewhat mitigated as only a few individuals are able to post tax journals. 120 tax journals amounting to £23,490k have been posted during the year. Our testing of tax journals has not identified any misstatements within these journals	The Council should ensure that all journals are subject to a two- way authorisation process. Management response The configuration in Oracle does not allow for the separate posting and approval for taxation journals, unlike standard and accrual journals. The ability to post taxation journals is limited to eight officers in the Council. Of this, only three officers will be posting entries regularly and two officers are only expected to do so on the rare occasions where cover is required. The three remaining officers will not process operational / transactional journals in the system and include a Helpdesk manager who will triage and resolve any system workflow issues with tax journals and the OGL Lead who supports in-system user guidance and experience. The risk is therefore not significant. Additionally, the sampling of tax-related journals for VAT and CIS tax returns will further ensure any errors are identified and corrected.

Key

- High – Significant effect on control system and/or financial statements
- Medium – Limited impact on control system and/or financial statements
- Low – Best practice for control systems and financial statements

Action plan continued

Assessment	Issue and risk	Recommendations
● Medium	Our cyber security risk assessment identified the following weaknesses: • Data Security - The Council has data loss prevention tools and process to prevent any unsafe data transfer and to prevent data from being lost and corrupted. However, the Council’s processes for classifying data is not based on its sensitivity and legal obligations. The Council anticipates that the process will be developed further upon the deployment of MS Purview, a governance solution that helps to manage data services. • Response and recovery planning – The Council has not undertaken an annual test of its incident response plan. The Council plans to implement the annual test for 2025. No major incident happened in 2024/25 that resulted to loss of data.	The Council should strengthen its processes for classification of its data. The Council should undertake annual testing of its incidence response plan to ensure that it remains fit for purpose. Management response The Council has a data strategy that includes data governance. Data classification is included within this workstream. Purview has been deployed to support the data classification. The first Annual Incident Response exercise has now been programmed in and will be tested before the end of 2025/26.
● Medium	Assessment of Assets Not Revalued. During our revaluation testing of the Council’s Property, Plant and Equipment we identified that assets of a value of £22,280k had not been revalued in the year. Management had not undertaken an assessment as to whether the value of these assets in the balance sheet would be materially different from their current valuation.	The Council should implement an annual review of assets not revalued, using appropriate market indices and benchmarking tools to prove that assets not revalued their carrying value is not materially different from the current values. Management response The Council acknowledges the recommendation to implement an annual review of assets completed or acquired during the year. We agree that this process will provide assurance that the carrying values of these assets remain materially consistent with their current values. The Council will instruct the valuers to carry out annual revaluations of these assets to ensure that the carrying amounts are not materially different from their current amounts.

Action plan continued

Assessment	Issue and risk	Recommendations
 Medium	During our revaluations work, we identified assets with both revaluation and impairment reserve balances which is unusual as each asset should only have one of these. This was confirmed to be a system error which affected the prior years.	The Council should review reserve balances during each revaluation cycle to ensure no asset holds both revaluation and impairment reserves. Management response This was a historic issue on the standalone asset management system which is being investigated. In future, additional checks will be carried out annually to ensure that balances are either on the revaluation reserve or the impairment reserve. Any issues identified will be raised with the system provider for investigation and correction.
 Medium	During our review of fees and charges income, we identified several misstatements in the recognition of housing rental income. These issues are mainly due to: - Incorrect codes and signage applied to transactions. - Adjustments lacking detailed workings or supporting calculations. This is caused by the multiple staff changes within the Housing team during the year, which impacted the accuracy and completeness of postings.	The Council should ensure all HRA income transactions fully supported by appropriate evidence, including detailed workings and reconciliations to the Housing system. It is also recommended that a rigorous review is done on the monthly income transactions posted in the GL to ensure their appropriateness. Management response The Finance team are in the process of undertaking a comprehensive review of the income reconciliation process. This review includes developing a detailed end-to-end process map outlining how data flows through the systems, as well as building in enhanced checks on the final working papers each month. These improvements will strengthen the controls of the process and subsequently safeguard the veracity of the final postings.
 Low	The Housing Benefit Overpayments Expected Credit Loss balance of £4,116k has been rolled forward from 2023/24. Although the housing benefit overpayments balance has not changed significantly from last year, there is a potential to be a change in composition of the debtors e.g. those debts outstanding for a longer period of time and a change in claimants that are no longer receiving benefits making it harder for the Council to reclaim monies.	We recommend that the Housing Benefit Overpayment Expected Credit Loss is re-calculated on an annual basis. Management response The Expected Credit Loss calculation of the Housing Benefit Overpayments debt will be re-calculated annually taking age of debt into account.

Follow up of prior year recommendations

We identified the following issues in the audit of the Council’s 2023/24 financial statements, which resulted in 2 recommendations being reported in our 2023/24 Audit Findings Report. Our update is below.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Our testing has identified Property, Plant and Equipment Assets in the fixed asset register with a Gross Book Value of £33m that are fully depreciated and have a Net Book Value of Nil. The Council has confirmed that these assets are all still in use. This implies that the lives the useful economic lives for these assets are incorrect.	The Council has undertaken a cleansing exercise of the fixed asset register and derecognised assets with a nil book value that the services have confirmed are no longer in use. The Council continues to keep the asset lives under review to ensure that the policy is in line with the actual expected asset lives.
X	During the year we identified that bank account reconciliations were not undertaken on a timely basis. This was due to a key member of the finance team normally responsible for bank reconciliations was on secondment.	During our planning audit we identified that bank reconciliation from November 2024 to January 2025 not been completed. This was confirmed by both the interim Principal Financial Accountant and Financial Forecasting Accountant. The delays in preparing the bank reconciliations was due to changes within the finance team. The Council has since completed February and March 2025 bank reconciliations.

Assessment

- ✓ Action completed
- X Not yet addressed

Value for Money arrangements

Approach to Value for Money work for the year ended 31 March 2025

The National Audit Office issued its latest Value for Money guidance to auditors in November 2024. The Code requires auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Additionally, The Code requires auditors to share a draft of the Auditor's Annual Report (AAR) with those charged with governance by 30th November each year from 2024-25. Our draft AAR accompanies this audit findings report.

In undertaking our work, we are required to have regard to three specified reporting criteria. These are as set out below.



Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.



Financial sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.



Governance

How the body ensures that it makes informed decisions and properly manages its risks.

In undertaking this work we have not identified any significant weaknesses in arrangements. Please see the overall outcome of the Value for Money work on the next page

Summary assessment of value for money arrangements

Our overall summary of our Value for Money assessment of the Council’s arrangements is set out below.

Criteria	2023/24 Assessment of arrangements	2024/25 Risk assessment	2024/25 Assessment of arrangements
Financial sustainability	A No significant weaknesses identified; improvement recommendations raised.	No risks of significant weakness identified.	1. G No significant weaknesses in arrangements identified or improvement recommendations made.
Governance	1. A No significant weaknesses identified; improvement recommendations raised.	No risks of significant weakness identified.	1. A No significant weaknesses in arrangements identified, but two improvement recommendations made (including in relation to the Pension Fund).
Improving economy, efficiency and effectiveness	1. A No significant weaknesses identified; improvement recommendations raised.	No risks of significant weakness identified.	1. A No significant weaknesses in arrangements identified, and no new recommendations identified, but an improvement recommendation from prior year remains in progress.

- G** No significant weaknesses or improvement recommendations.
- A** No significant weaknesses, improvement recommendation(s) made.
- R** Significant weaknesses in arrangements identified and key recommendation(s) made.

Fees and non-audit services

Total audit fee

The proposed audit scale fee for 2024/25 is £427,772. There are no audit overruns. We need to add on a small fee for the additional work required for the audit of the new leasing standard IFRS16.

Total non audit fee

Fees for the audit of the Council’s grant claims £91,000

The above fees are exclusive of VAT and out of pocket expenses.
The fee of £427,772 agrees to the financial statements. The grant claim fee of £91,000 agrees to the financial statements.

This covers all services provided by us and our network to the group/Council, its directors and senior management and its affiliates, that may reasonably be thought to bear on our integrity, objectivity or independence.

Independence considerations

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, there are no independence matters that we would like to report to you.

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

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

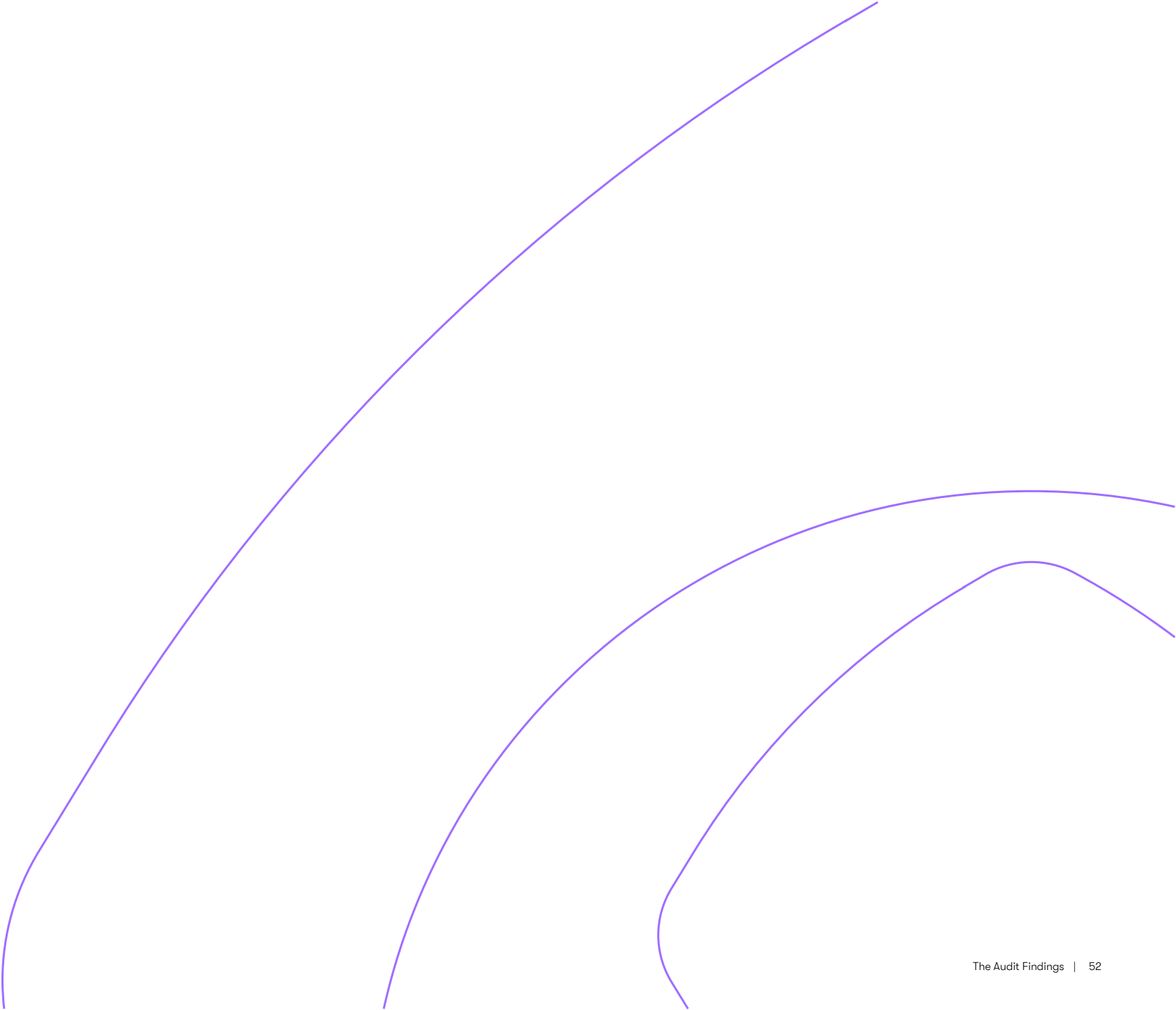
We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention and consider that an objective reasonable and informed third party would take the same view. The firm and each covered person and network firms have complied with the Financial Reporting Council’s Ethical Standard and confirm that we are independent and are able to express an objective opinion on the financial statements.

Fees and non-audit services

Audit-related non-audit services

Service	2024/25	Threats Identified	Safeguards applied
Certification of Housing Benefits Claim	£45,000 core fixed element plus £1,500 a day for additional testing. £60,000	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 will be low in comparison to the total fee for the audit of £427,772 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Housing Capital receipts grant	£10,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,000 in comparison to the total fee for the audit of £427,772 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Certification of Teacher's Pension Return	£12,500	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £12,500 in comparison to the total fee for the audit of £427,772 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.
ESFA/GLA subcontracting audit	£8,500	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 £8,500 in comparison to the total fee for the audit of £427,772 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.
Total	£91,000		

Appendices

Three decorative purple arcs of varying radii are positioned on the right side of the slide, starting from the bottom and curving upwards and to the right.

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	●	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks	●	
Confirmation of independence and objectivity	●	●
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	●	●
Significant matters in relation to going concern	●	●
Views about the qualitative aspects of the Group’s accounting and financial reporting practices including accounting policies, accounting estimates and financial statement disclosures		●
Significant findings from the audit		●
Significant matters and issue arising during the audit and written representations that have been sought		●
Significant difficulties encountered during the audit		●
Significant deficiencies in internal control identified during the audit		●
Significant matters arising in connection with related parties		●

A. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		
Non-compliance with laws and regulations		
Unadjusted misstatements and material disclosure omissions		
Expected modifications to the auditor's report, or emphasis of matter		

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

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

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the company directors and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance.

B. Our team and communications

Grant Thornton core team

Darren Wells

Engagement Lead

- Key contact for senior management and Audit and Transparency Committee
- Overall quality assurance

Paul Jacklin

Audit Manager

- Audit planning
- Resource management
- Performance management reporting

Cherica Joy Angeles

Audit Senior

- On-site audit team management
- Day-to-day point of contact
- Audit fieldwork

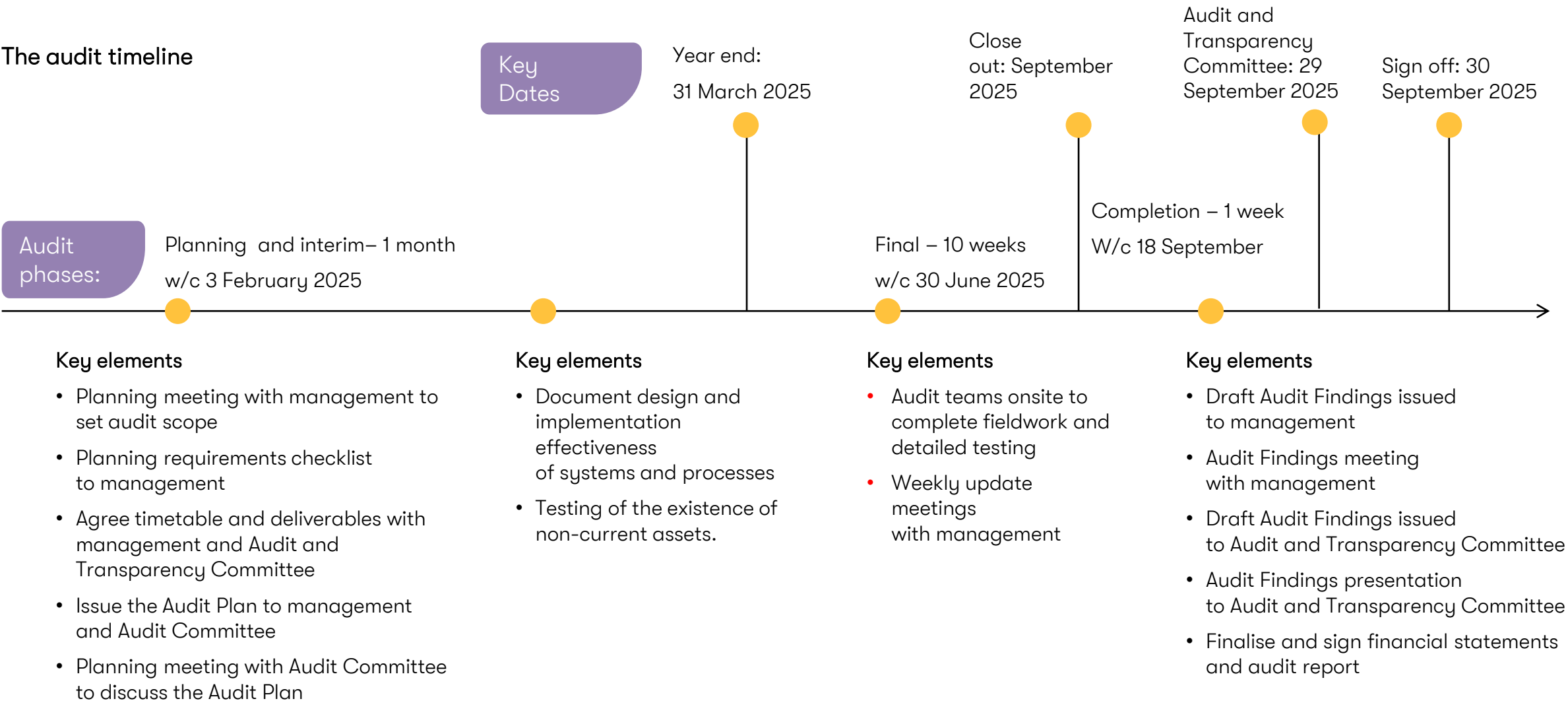
Pool of IT specialists

Service delivery	Audit reporting	Audit progress	Technical support
Formal communications • Annual client service review	• The Audit Plan • The Audit Findings	• Audit planning meetings • Audit clearance meetings • Communication of issues log	• Technical updates
Informal communications • Open channel for discussion		• Communication of audit issues as they arise	• Notification of up-coming issues

As part of our overall service delivery, we may utilise colleagues who are based overseas, primarily in India and the Philippines. Those colleagues work on a fully integrated basis with our team members based in the UK and receive the same training and professional development programmes as our UK based team. They work as part of the engagement team, reporting directly to the Audit Senior and Manager and will interact with you in the same was as our UK based team albeit on a remote basis. Our overseas team members use a remote working platform which is based in the UK. The remote working platform (or Virtual Desktop Interface) does not allow the user to move files from the remote platform to their local desktop meaning all audit related data is retained within the UK.

C. Logistics

The audit timeline



D. Audit opinion

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 2025, which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, the Collection Fund Account and notes to the financial statements, including the accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2025 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 2024/25; 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 (2024) ("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.

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 2024/25 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 2024) 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.

D. Audit opinion continued

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

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.

Our responsibilities and the responsibilities of the Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

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. The Executive Director of Resources is responsible for the other information. 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.

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 themselves. 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.

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 November 2024 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 the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, 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, the other information published together with the financial statements in the Statement of Accounts or the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

D. Audit opinion continued

Responsibilities of the Authority and the Executive Director of Resources

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 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 2024/25, 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 they have been informed by the relevant national body of the intention to dissolve the Authority without the transfer of its services to another public sector entity.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. 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 (the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, the Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Accounts and Audit (Amendment) Regulations 2024, the Local Government Act 2003, Local Government Act 1972, Local Government and Housing Act 1989 and the Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992 and the Local Government Finance Act 2012).
- We enquired of management 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 management 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 management's 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.

D. Audit opinion continued

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that management 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; and
 - 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.
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, 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. We remained alert to any indications of non-compliance with laws and regulations, including fraud, throughout the audit.

- The engagement partner's 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.

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.

D. Audit opinion continued

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 1 March 2025.

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

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.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in the Authority's 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 have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in November 2024. 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 have documented 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 have considered whether there is evidence to suggest that there are significant weaknesses in arrangements.

D. Audit opinion continued

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 2025 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have:

- received confirmation from the National Audit Office that the audit of the Whole of Government Accounts is complete for the year ended 31 March 2025; and
- Issued our opinion on the consistency of the pension fund financial statements of the Authority included in the Pension Fund Annual Report of Kensington and Chelsea Pension Fund with the pension fund financial statements included in the Statement of Accounts.

We are satisfied that work does not have a material effect on the financial statements for the year ended 31 March 2025.

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 85 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.

Darren Wells

Darren Wells, Key Audit Partner

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

London

6 November 2025



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