

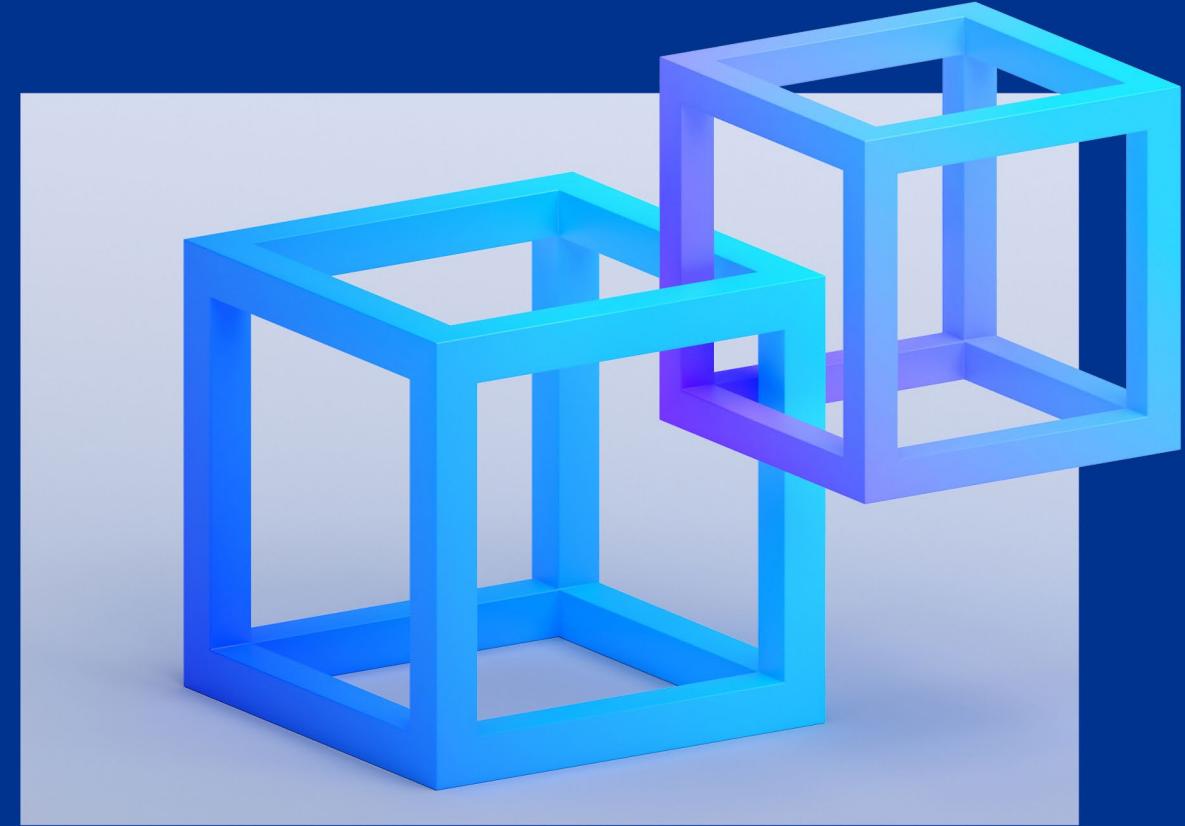
# South Kesteven District Council

Year End Report to the Governance & Audit  
Committee

**Year end report for the year ended 31 March 2025**

**DRAFT**

9 February 2026



# Introduction

## To the Governance & Audit Committee of South Kesteven District Council

We are pleased to have the opportunity to meet with you on the 18th February 2026 to discuss the results of our audit of the consolidated financial statements of South Kesteven District Council (the 'Council') as at and for the year ended 31 March 2025.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on the 18<sup>th</sup> June 2025. We will be pleased to elaborate on the matters covered in this report when we meet.

## How we deliver audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when:

- Audits are executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality management; and,
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Salma Younis ([Salma.Younis@KPMG.co.uk](mailto:Salma.Younis@KPMG.co.uk)), the engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with the response, please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Tim Cutler. ([tim.culter@kpmg.co.uk](mailto:tim.culter@kpmg.co.uk)). After this, if you are still dissatisfied with how your complaint has been handled you can access KPMG's complaints process here: [Complaints](#).

## The engagement team

Subject to the approval of the statement of accounts, we expect to be in a position to sign our audit opinion on the approved statement of accounts and auditor's representation letter by 27 February 2026, provided that the outstanding matters noted on page 4 of this report are satisfactorily resolved.

There have been no significant changes to our audit plan and strategy other than those described on page 5.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report
- Limitations on work performed
- Restrictions on distribution of this report

Yours sincerely,

**Salma Younis**

9 February 2026

Contents	Page
Introduction	2
Important notice	3
Our audit findings	4
Key changes to our audit plan	5
Significant risks and Other audit risks	6
Audit risks and our audit approach	7-15
Key accounting estimates and management judgement	16
Group audit scope	18
Other matters	19
Value for money	21-22
Appendix	23-37

# Important notice

**This report is presented under the terms of our audit under Public Sector Audit Appointments (PSAA) contract..**

The content of this report is based solely on the procedures necessary for our audit.

## Purpose of this report

This Report has been prepared in connection with our audit of the consolidated financial statements of South Kesteven District Council (the 'Council'), prepared in accordance with International Financial Reporting Standards ('IFRSs') as adapted Code of Practice on Local Authority Accounting in the United Kingdom 2024/25, as at and for the year ended 31 March 2025.

This Report has been prepared for the Council's Governance & Audit Committee, a sub-group of those charged with governance, in order to communicate matters that are significant to the responsibility of those charged with oversight of the financial reporting process as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

## Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the Council's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

## Status of our audit

Our audit is not yet complete and matters communicated in this Report may change pending signature of our audit report. We will provide an oral update on the status. Page 4 'Our Audit Findings' outlines the outstanding matters in relation to the audit. Our conclusions will be discussed with you before our audit report is signed.

## Restrictions on distribution

The report is provided on the basis that it is only for the information of the Governance & Audit Committee of the Council; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Our audit findings

Significant audit risks	Page 6-17
Significant audit risks	Our findings
Valuation of land and buildings	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of land and buildings is based. We have concluded that the assumptions used in the valuation of land and buildings are balanced.
Valuation of investment property	We critically assessed the key underlying assumptions underpinning the valuation on which the carrying value of investment properties is based. We have concluded that the assumptions used in the valuation of investment properties are balanced.
Management override of controls	From our testing we have not identified any instances of management override of control.
Valuation of post retirement benefit obligations	No issues identified from the testing over the valuation. KPMG actuaries have assessed the assumptions used and concluded these are within our reasonable range.
Other audit risks	Page 15
Other audit risks	Our findings
IFRS 16 adoption	We have performed procedures over IFRS 16 adoption and we have noted no issues.

Uncorrected Audit Misstatements	Page 29	
Understatement/ (overstatement)	£'000	%
Revenues	0	0
Surplus for the year	189	1.47
Total assets	0	0
Total taxpayers' equity	189	0.04

Misstatements in respect of Disclosures	Page 29-30
Misstatement in respect of Disclosures	Our findings
Leases	Council as a Lessor - Operating leases note omitted from first draft of the accounts.
Officers' Remuneration	Identified the need to disclose Head of HR salary in note.

Number of Control deficiencies	Page 31-33
Significant control deficiencies	0
Other control deficiencies	1
Prior year control deficiencies remediated	3

## Outstanding matters

Our audit is substantially complete, except for the following outstanding matters:

- Internal quality review of testing
- Review of updated statement of accounts
- Receipt of signed management representation letter
- Finalise audit report and sign

We do not expect any significant changes to conclusions of the audit however. Where necessary, we will communicate these to Governance and Audit Committee.

# Key changes to our audit plan

We have not made any changes to our audit plan as communicated to you on 18 June 2025, other than as follows:

Risk	Effect on audit plan	Effect on audit strategy and plan
<b>Significant Risk – Valuation of Land and Buildings</b>	<p>In our Audit Plan, we communicated that the significant risk for land and buildings valued on a DRC basis was over the BCIS indices assumptions. However, after reviewing valuer calculations and assumptions used, we have revised this approach as we do not believe there is a significant risk over BCIS assumption as these are derived from independent, externally available data sources. We have identified a significant risk linked to the obsolescence assumption which is driven by useful economic life and remaining useful economic life. There is a higher level of estimation uncertainty with these assumptions that requires valuer judgement.</p> <p>In our Audit Plan, we communicated that the significant risk for valuation of Council Dwellings focused on the assumption of beacon groupings. However, after further consideration of methods, assumptions and data used in the valuation, we have assessed the application of beacon methodology as significant due to the high degree of estimation uncertainty. For example, if the valuer applies the beacon value to the incorrect value beacon group, all assets within the beacon may be misstated which may lead to material misstatement depending on the size of the beacon group.</p>	<ul style="list-style-type: none"> <li>• We have agreed performed an assessment over the obsolescence method and useful economic lives of assets and challenged management on judgements made, where necessary.</li> <li>• We have confirmed that the application of the methods, assumptions and data used in appropriate and in line with the CIPFA Code.</li> <li>• See page 7-8 which outlines the significant risk, response and findings to explain the effect of this change.</li> </ul>

# Significant risks and Other audit risks

We discussed the significant risks which had the greatest impact on our audit with you when we were planning our audit.

Our risk assessment draws upon our historic knowledge of the business, the industry and the wider economic environment in which South Kesteven District Council operates.

We also use our regular meetings with senior management to update our understanding and take input from local audit teams and internal audit reports.

See the following slides for the cross-referenced risks identified on this slide.

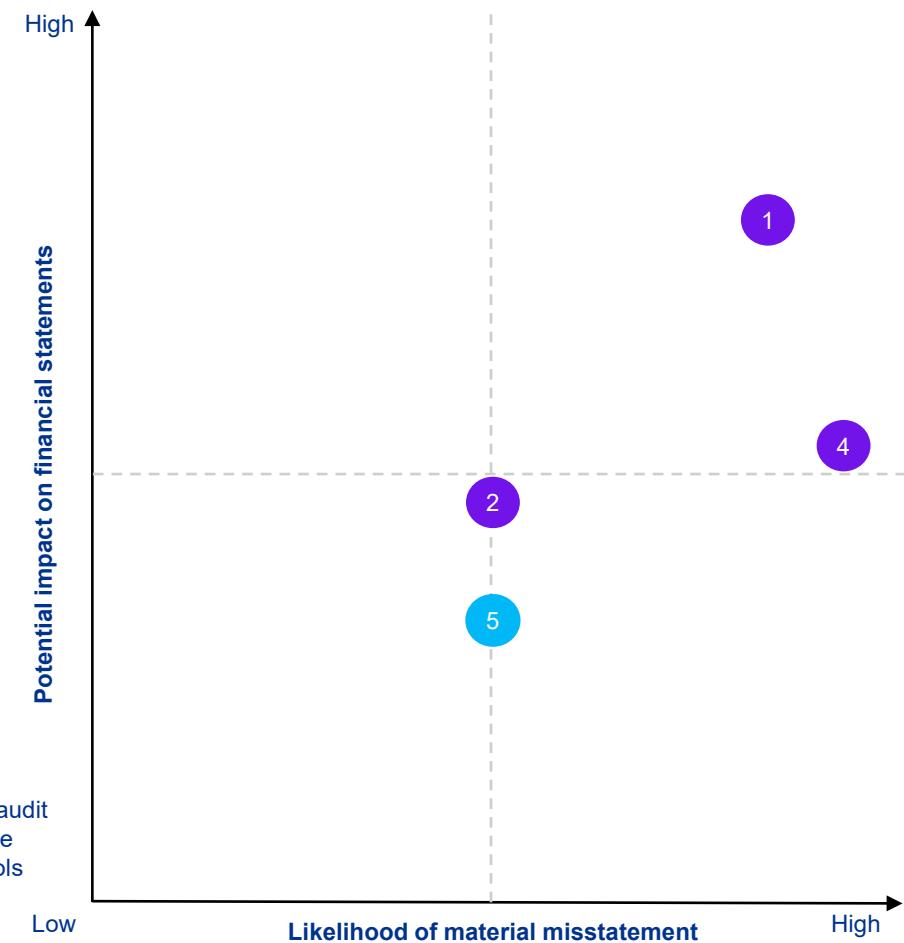
Significant risks	
1.	Valuation of land and buildings
2.	Valuation of investment property
3.	Management override of controls <sup>a</sup>
4.	Valuation of post retirement benefit obligations

Other audit risks	
5.	Adoption of IFRS 16

Key: # Significant financial statement audit risks    # Other audit risk

<sup>a</sup> A significant risk that auditing standards require us to assess on all audit engagements. Not always included in the graph except where we have also identified an entity-specific risk of management override of controls



# Audit risks and our audit approach

1

## Valuation of land and buildings

The carrying amount of revalued Land & Buildings differs materially from the fair value



### Significant audit risk

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle, with land and buildings outside the full revaluation subject to a desktop review.

This creates a risk that the carrying value of assets not revalued in year differs materially from the year end current value.

A further risk is presented for those assets that are revalued in the year, which involves significant judgement and estimation on behalf of the District Valuer Services (DVS) which is the specialist property arm of the Valuation Office Agency (VOA).

Total value of council dwellings and other land and buildings as at 31 March 2025 was £350.9m and £68.3m respectively.

See page overleaf.

#### Key:

○ Prior year

● Current year



# Audit risks and our audit approach (cont.)

## 1

### Valuation of land and buildings (cont.)

The carrying amount of revalued Land & Buildings differs materially from the fair value



#### Significant audit risk

*Continued from previous page.*

We have focused our significant risk over the obsolescence and useful economic lives for land and buildings valued on a DRC basis (specialised assets) and the rental rate & yield assumptions used for the EUV valuations (non-specialist assets).

For valuation of Council Dwellings, we have identified a significant risk over the application of the methods, assumptions and data.

Key:  
 Prior year  
  Current year



#### Our findings

- We concluded that the assumptions used in the valuation of land and buildings are balanced and did not identify any indications of management bias within the valuations.
- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of land and buildings is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. We raised this as a recommendation in the prior year - management accepted the residual risk and no further action was taken. Therefore, we have not re-raised the recommendation this year.
- During 2024/25, management identified several assets that had incorrect floor areas after a review was performed by the property manager. For example, voids above swimming pools were being counted as operational floor area. Hence incorrect floor areas had been used by the valuer in their calculation of the asset valuations. Management performed a wider assessment of their property portfolio to ensure no similar issues which could give rise to material misstatement in the valuation. We have reviewed this assessment and we are comfortable that there is no risk of material error as a result of inaccurate floor areas.
- We note that management have also implemented a rolling review programme of floor areas of all assets.
- We did not identify any audit misstatements as a result of the remaining audit procedures performed.

# Audit risks and our audit approach

2

## Valuation of investment property

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at 31 March 2025, the value of investment properties was £12.158m (31 March 2024: £12.785m)

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

From our risk assessment of the elements within the valuations estimate we have focused our audit effort in relation to the significant risk over the income approach methodology and the yield assumptions.



### Our response

We have performed the following procedures designed to specifically address the significant risk associated with the valuation:

- We critically assessed the independence, objectivity and expertise of District Valuer Services (DVS), the valuer used in developing the valuations at 31 March 2025;
- We inspected the instructions issued to the valuers to verify they are appropriate to produce a valuation consistent with the requirements of the CIPFA Code.
- We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information;
- We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used;
- We challenged the appropriateness of the valuation; including any material movements from the previous valuations. We challenge key assumptions within the valuation as part of our judgement;
- We agreed the calculations performed of the movements and verify that these have been accurately accounted for in line with the requirements of the CIPFA Code; and
- We considered the adequacy of the disclosures concerning the key judgements and degree of estimation involved in arriving at the valuation.

#### Key:

○ Prior year

■ Current year



# Audit risks and our audit approach (cont.)

2

## Valuation of investment property (cont.)

The carrying amount of revalued investment property differs materially from the fair value



### Significant audit risk

The Code defines an investment property as one that is used solely to earn rentals or for capital appreciation or both. Property that is used to facilitate the delivery of services or production of goods as well as to earn rentals or for capital appreciation does not meet the definition of an investment property. As at 31 March 2025, the value of investment properties was £12.158m (31 March 2024: £12.785m)

There is a risk that investment properties are not being held at fair value, as is required by the Code. At each reporting period, the valuation of the investment property must reflect market conditions. Significant judgement is required to assess fair value and management experts are often engaged to undertake the valuations.

From our risk assessment of the elements within the valuations estimate we have focused our significant risk over the income approach methodology and the yield assumptions.



### Our findings

- We concluded that the assumptions used in the valuation of investment properties are balanced and did not identify any indications of management bias within the valuations.
- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk. There is a significant threshold that needs to be met in order to have a satisfactory MRC in place – particularly around the precision of the control. We note that although the Council has processes in place to help ensure that the valuation of investment properties is based on best estimate, supported by reasonable assumptions, these processes do not meet the required threshold of an MRC. We raised this as a recommendation in the prior year - management accepted the residual risk and no further action was taken. Therefore, we have not re-raised the recommendation this year.
- We did not identify any audit misstatements as a result of the remaining audit procedures performed.

#### Key:

Prior year    Current year



# Audit risks and our audit approach

3

## Management override of controls<sup>(a)</sup>

Fraud risk related to unpredictable way management override of controls may occur



### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



### Our response

Our audit methodology incorporates the risk of management override as a default significant risk. We performed the following:

- Assessed accounting estimates for biases by evaluating whether judgements and decisions in making accounting estimates, even if individually reasonable, indicate a possible bias.
- Evaluated the selection and application of accounting policies.
- In line with our methodology, we have evaluated the design and implementation of controls over journal entries and post closing adjustments.
- Assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- Assessed the business rationale and the appropriateness of the accounting for significant transactions that are outside the Council's normal course of business or are otherwise unusual.
- We analysed all journals through the year and focus our testing on those with a higher risk, for example any journals posted by seldom users, on weekends or unusual combinations with revenue and borrowing accounts.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Key:

Prior year Current year



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# Audit risks and our audit approach (cont.)

3

## Management override of controls (cont.)<sup>(a)</sup>

Fraud risk related to unpredictable way management override of controls may occur



### Significant audit risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.



### Our findings

- Auditing Standards requires auditors to identify a management review control (MRC) where there is a significant audit risk and we identified a control deficiency in relation to journal posting. There is no approval process within the finance team and so any person with access to the ledger system (though this is limited to a subset of the finance team) can create and post journals to the ledger without the review of any other member within the team. This creates the opportunity for fraudulent expenditure to be posted to the ledger. We raised this as a recommendation in the prior year - management accepted the residual risk and no further action was taken. Therefore, we have not re-raised the recommendation this year.
- We identified 14 journal entries and other adjustments meeting our high-risk criteria – our examination identified 3 journals that were miscoded to the wrong account code but concluded these were isolated and had no net impact on the reported surplus.
- We have not identified any issues in relation to the Council's accounting policies and accounting estimates
- We evaluated accounting estimates and did not identify any indicators of management bias – see page 16.
- Our procedures did not identify any significant unusual transactions.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Key:

Prior year Current year



# Audit risks and our audit approach

4

## Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



### Significant audit risk

- The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position.
- The effect of these matters is that, as part of our risk assessment, we determined that post-retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surplus are complicated and requires actuarial involvement.

Key:

Prior year

Current year



### Our response

We have performed the following procedures :

- Understood the processes the Council have in place to set the assumptions used in the valuation;
- Evaluated the competency, objectivity of the actuaries to confirm their qualifications and the basis for their calculations;
- Performed inquiries of the accounting actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;
- Agreed the data provided by the audited entity to the Scheme Administrator for use within the calculation of the scheme valuation;
- Evaluated the design and implementation of controls in place for the Council to determine the appropriateness of the assumptions used by the actuaries in valuing the liability;
- Challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data;
- Confirmed that the accounting treatment and entries applied by the Group are in line with IFRS and the CIPFA Code of Practice;
- Considered the adequacy of the Council's disclosures in respect of the sensitivity of the deficit or surplus to these assumptions;
- Where applicable, assessed the level of surplus that should be recognised by the entity;

# Audit risks and our audit approach (cont.)

4

## Valuation of post retirement benefit obligations (cont.)

An inappropriate amount is estimated and recorded for the defined benefit obligation



### Significant audit risk

- The valuation of the post-retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the Council's pension liability could have a significant effect on the financial position of the Council.
- The effect of these matters is that, as part of our risk assessment, we determined that post-retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the Council in completing the year end valuation of the pension deficit and the year on year movements.
- We have identified this in relation to the following pension scheme memberships: Local Government Pension Scheme
- Also, recent changes to market conditions have meant that more councils are finding themselves moving into surplus in their Local Government Pension Scheme (or surpluses have grown and have become material). The requirements of the accounting standards on recognition of these surpluses are complicated and requires actuarial involvement.

#### Key:

Prior year

Current year



### Our findings

- We concluded that controls in place to review the valuation were ineffective. Auditing standards requires controls to be designed with a certain level of recurrency and precision which is not part of management's process. We raised this deficiency in the prior year and noted that management accepted the residual risk. We have therefore not raised a formal recommendation for the current year, but note the deficiency remains.
- We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range. All individual assumptions were assessed as balanced and within our reasonable range except for CPI inflation which is assessed as cautious but within our reasonable range.
- We have confirmed that the Fund's appointed actuaries, both individual and firm, hold appropriate professional qualifications, being Fellows of the Institute of Actuaries, and are therefore qualified to perform actuarial valuations and prepare IAS19 disclosure reports.
- We evaluated the appropriateness of the accounting treatment of the surplus in accordance with IFRIC 14. We agree with management's conclusion and the application of the asset ceiling. Combined with all of the above, we are satisfied with the net liability reported.
- We tested key input data used in the Defined Benefit Obligation (DBO) valuation, including benefits paid and contributions, no material variance noted.
- We have recommended the Council to update the narrative disclosure on Virgin Media case, where previously it was unclear whether the ruling would apply to LGPS. Following the publication of draft legislation, we do not now expect the ruling to give rise to any additional liabilities.

# Audit risks and our audit approach

5

## Adoption of IFRS 16

An inappropriate amount is estimated and recorded for lease liabilities and right of use assets



### Other audit risk

The Council adopted IFRS 16 as per CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom (2024/25) with an implementation date of 1 April 2024.

We anticipate the following impact in the first year of implementation.

- Completeness of lease listing used in transition computations.
- Inadequate lease disclosures as per IFRS 16.
- Inaccurate computation of lease liabilities and right of use assets.
- Training needs for new/existing staff



### Our response

We performed the following procedures in order to respond to the other audit risk identified:

- Obtained the full listings of leases and reconciled to the general ledger.
- Reviewed a sample of the lease agreements to determine the terms of the leases and confirmed correct classification.
- Reviewed the appropriateness of the discount rate used in the lease computations.
- Reviewed the transition adjustments posted by the Council.
- Reviewed the disclosures made on the financial statements against requirements of IFRS 16.



### Our findings

Our audit findings were as follows:

- We confirmed the lease register reconciled back to the general ledger.
- We confirmed that the lease classification per the register is accurate.
- We confirmed that the discount rate used is appropriate.
- We did not identify any audit misstatements as a result of the procedures performed.

#### Key:

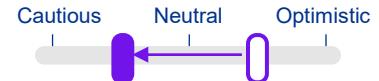
0 Prior year    ● Current year



# Key accounting estimates and management judgements- Overview

## Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

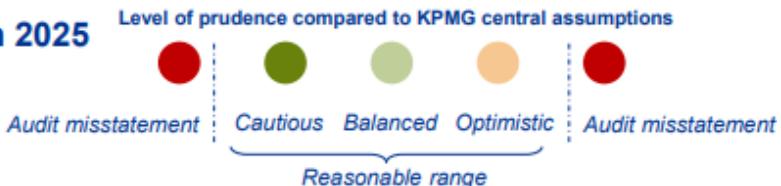


Asset/liability class	Our view of management judgement			Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates			Further comments
<b>Council Dwellings</b>	Cautious	Neutral	Optimistic	<b>350.9</b>	<b>11.4</b>	Needs improvement	Neutral	Best practice	No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced. The year-on-year change is driven by overall movement of 3.54% across the Council's housing portfolio.
<b>Other Land &amp; Buildings</b>	Neutral	Optimistic		<b>68.3</b>	<b>2.71</b>	Neutral	Optimistic		No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced. The year-on-year change is driven by additions of £1m and general increase in valuations.
<b>Investment Properties</b>	Neutral	Optimistic		<b>12.2</b>	<b>-0.63</b>	Neutral	Optimistic		No issues identified from our testing, the assumptions used by the Council's valuer were considered balanced.
<b>LGPS gross Liability</b>	Optimistic			<b>112.4</b>	<b>-14.4</b>	Neutral	Optimistic		We have assessed the overall assumptions used by management as balanced relative to our central rates and within our reasonable range (Refer KPMG assessment on next page). Disclosures are inline with the requirements of the standard. Only a few presentation recommendations were sent to management to update narratives.

Key:  
█ Prior year   █ Current year



## South Kesteven District Council – LGPS participation - IAS 19 as at 31 March 2025



Overall assessment of assumptions for audit consideration							Balanced	
Underlying assessment of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with accounting standard?	Employer	KPMG	Assessment	Key assumptions
Discount rate	AA yield curve	✓	✓		5.80%	5.74%	●	✓
CPI inflation	Deduction to inflation curve	✓	✓		2.90%	2.74%	●	✓
Pension increases	In line with CPI	✓	✓		2.90%	2.96%	●	
Salary increases	Employer best estimate	✓	✓		CPI plus 1%	In line with long-term remuneration policy	●	
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	130%/120% of SAPS S3 tables for Males/Females	In line with Scheme best-estimate	●	✓
	Future improvements	In line with most recent Fund valuation, updated to use latest CMI model	✓	✓	CMI 2023, 1.25% long-term trend rate and default other parameters	CMI 2023, 1.25% long-term trend rate and default other parameters	●	✓
Other demographics		In line with most recent Fund valuation	✓	✓	Cash commutation	In line with Scheme experience	●	

# Group audit scope

The table below details the group components and level of audit work performed to support the group audit opinion.

Group	Full audit / Audit of Balances
South Kesteven District Council (Parent)	Full audit
LeisureSK Limited	<p>Our group risk assessment procedures did not identify a significant risk attached to the account balances related to this subsidiary.</p> <p>Therefore, our audit procedures focused on risk assessment including a review of the trial balance, testing of cash and agreeing the consolidation of the subsidiary into the Group accounts.</p>

# Other matters

## Narrative report

We have read the contents of the Narrative Report and checked compliance with the requirements of the Annual Report and financial statements with the Code of Practice on Local Authority Accounting in the United Kingdom 2024/25 ('the Code'). Based on the work performed:

- We have not identified any inconsistencies between the contents of the Narrative Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements of the Council. As Governance and Audit Committee members you confirm that you consider that the Narrative Report and financial statements taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the Council's performance, model and strategy.

## Annual Governance Statement

We have reviewed the Council's 2024/25 Annual Governance Statement and confirmed that:

- It complies with Delivering Good Governance in Local Government: A Framework published by CIPFA/SOLACE; and
- It is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

## Whole of Government Accounts

As required by the National Audit Office (NAO) we carry out specified procedures on the Whole of Government Accounts (WGA) consolidation pack.

We have confirmed that, for South Kesteven District Council, the threshold at which detailed testing is required has not been exceeded. We have therefore completed our work on the Whole of Government Accounts and have no issues to report to the Governance and Audit Committee.

We will submit an updated assurance statement on completion of the audit and following review the final financial statements.

We are aware that we will not be able to issue the Audit Completion certificate until the WGA has been signed by the National Audit Office so this will continue to be outstanding.

## Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

## Audit Fees

Our scale fee for the 2024/25 audit, as set by PSAA is £165,842 plus VAT (£150,979 in 2023/24).

We have agreed scope variations with management, for IFRS 16 and ISA 600r amounting to £3,890 and £8,627 relating to delays and quality of evidence submitted for audit. In the prior year, we agreed a scope variation in relation to ISA315R (£11,790) and in relation to the delays in the VFM and audit work (£5,830).

We have also completed non audit work at the Council during the year on South Kesteven District Council on Housing Benefit Grant and Pooling Audits and have included on page 27 confirmation of safeguards that have been put in place to preserve our independence.

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# Value for money

# Value for Money

**We are required under the Audit Code of Practice to confirm whether we have identified any significant weaknesses in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.**

In discharging these responsibilities we include a statement within the opinion on your accounts to confirm whether we have identified any significant weaknesses. We also prepare a commentary on your arrangements that is included within our Auditor's Annual Report, which is required to be published on your website alongside your annual report and accounts.

## Commentary on arrangements

We have prepared our Auditor's Annual Report and a copy of the report is included within the papers for the Committee alongside this report. The report is required to be published on your website alongside the publication of the annual report and accounts.

## Response to risks of significant weaknesses in arrangements to secure value for money

As noted on the right, we have identified one risk of a significant weakness in the Council's arrangements to secure value for money. Within our Auditor's Annual Report, we have set out our response to those risks.

We have no recommendations to report.

## Summary of findings

We have set out in the table below the outcomes from our procedures against each of the domains of value for money:

Domain	Risk assessment	Summary of arrangements
Financial sustainability	No significant risks identified	No significant weaknesses identified
Governance	One significant risk identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness	No significant risks identified	No significant weaknesses identified

Further detail is set out in our Auditor's Annual Report.

## Performance improvement observations

As part of our work we have identified one Performance Improvement Observation, which are suggestions for improvement but not responses to identified significant weaknesses – see page 22.

# Value for Money: Performance improvement observations

The performance improvement observations raised as a result of our work in respect of identified or potential significant value for money risks in the current year are as follows:

Priority rating for observations		
<p><b>1</b> <b>Priority one:</b> Observations linked to issues where, if not rectified, these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p><b>2</b> <b>Priority two:</b> Observations linked to issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.</p>	<p><b>3</b> <b>Priority three:</b> Observations linked to issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	<p><b>2</b> <b>Accounts preparation</b></p> <p>In 2023/24 and 2024/25 the draft statement of accounts were not produced in accordance with the reporting deadline.</p> <p><b>Recommendation</b></p> <p>We recommend management review the accounts production processes and timetable for 2025/26 to ensure they have necessary capacity to meet the regulatory deadline and reporting timetable.</p>	<p>Whilst the Council recognises the potential risk in missing the draft accounts deadline it has meet the statutory back stop dates for final accounts alongside having fully audited, unqualified accounts.</p> <p>The 2024/25 closedown was impacted with the changeover in financial systems so difficult decisions were taken in balancing resource requirements which did impact on draft accounts publication.</p> <p>2025/26 will be the first closedown on the new finance system and with new members of the finance team will bring its challenges. Management are putting in place additional support with the system implementation experts to help the team through this process.</p> <p><b>Officer and due date</b></p> <p>Assistant Director of Finance</p> <p>June 2026</p>	

# Appendix

## Contents

	Page
Required communications	24
Fees	25
Confirmation of Independence	26
Uncorrected audit misstatements	29
Corrected audit misstatements	30
Control Deficiencies	31
FRC's areas of focus	34
KPMG's Audit quality framework	37

# Required communications

Type	Response
Our draft management representation letter	<input checked="" type="checkbox"/> We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2025.
Adjusted audit differences	<input checked="" type="checkbox"/> There was 1 adjusted audit differences with no net impact on the surplus. See page 30.
Unadjusted audit differences	<input checked="" type="checkbox"/> The aggregated surplus impact of unadjusted audit differences would be -£189k. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See page 29
Related parties	<input checked="" type="checkbox"/> There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Governance and Audit Committee	<input checked="" type="checkbox"/> There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	<input checked="" type="checkbox"/> We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit. See page 31-33.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	<input checked="" type="checkbox"/> No actual or suspected fraud involving management, employees with significant roles in internal control, or where fraud results in a material misstatement in the financial statements identified during the audit.
Issue a report in the public interest	<input checked="" type="checkbox"/> We are required to consider if we should issue a public interest report on any matters which come to our attention during the audit. We have not identified any such matters.

Type	Response
Significant difficulties	<input checked="" type="checkbox"/> No significant difficulties were encountered during the audit.
Modifications to auditor's report	<input checked="" type="checkbox"/> None
Disagreements with management or scope limitations	<input checked="" type="checkbox"/> The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	<input checked="" type="checkbox"/> No material inconsistencies were identified related to other information in the statement of accounts.
Breaches of independence	<input checked="" type="checkbox"/> No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	<input checked="" type="checkbox"/> Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	<input checked="" type="checkbox"/> There were no significant matters identified.
Certify the audit as complete	<input checked="" type="checkbox"/> We will not be able to issue the Audit Completion certificate until the WGA has been signed by the National Audit Office so this will continue to be outstanding.  There are no other issues delaying this being issued.

# Fees

## Audit fee

Our fees for the year ending 31 March 2025 are set out in the PSAA Scale Fees communication and are shown below.

Entity	2024/25 (£'000)	2023/24 (£'000)
Scale fee as set by PSAA	166	151
Fee variation approved by PSAA	-	18
Fee variation for financial statements audit agreed with management but subject to PSAA approval	13	-
<b>TOTAL</b>	<b>179</b>	<b>169</b>

Management have agreed scope changes of £3,890 for ISA 600r (Group standard) and IFRS 16 (leases standard) and overruns of £8,627 relating to delays and quality of evidence submitted for audit.

These will need to go to the PSAA for approval.

## Billing arrangements

- Fees have been billed in accordance with the milestone completion phasing that has been communicated by the PSAA.

# Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Director and audit staff is not impaired.

## To the Governance and Audit Committee members

### Assessment of our objectivity and independence as auditor of South Kesteven District Council

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners/directors and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values.
- Communications.
- Internal accountability.
- Risk management.
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of non-audit services

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out on the table overleaf.

# Confirmation of Independence (cont.)

Disclosure	Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the year ended 31 March 2025 £000	Value of Services Committed but not yet delivered £000
1	Housing Benefit Grant Certification	Management Self review Self interest	<ul style="list-style-type: none"> <li>Separate teams</li> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	27.9	-
2	Pooling of Local Authority Housing Receipts audit	Management Self review Self interest	<ul style="list-style-type: none"> <li>Separate teams</li> <li>Standard language on non-assumption of management responsibilities is included in our engagement letter.</li> <li>The engagement contract makes clear that we will not perform any management functions.</li> <li>The work is performed after the audit is completed and the work is not relied on within the audit file.</li> <li>Our work does not involve judgement and are statements of fact based on agreed upon procedures.</li> </ul>	Fixed	6	7.2

# Confirmation of Independence (cont.)

## Summary of fees

We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period.

## Fee ratio

The ratio of non-audit fees to audit fees for the year is anticipated to be 0.2: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

2024/25	
	£'000
Total audit fee (including fee variations)	179
Other Assurance Services	34
<b>Total Fees</b>	<b>213</b>

## Application of the FRC Ethical Standard 2019

Your previous auditors will have communicated to you the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

AGN 01 states that when the auditor provides non-audit services, the total fees for such services to the audited entity and its controlled entities in any one year should not exceed 70% of the total fee for all audit work carried out in respect of the audited entity and its controlled entities for that year.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered.

## Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

## Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the Group and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

**KPMG LLP**

# Uncorrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance & Audit Committee with a summary of uncorrected audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Governance & Audit Committee, details of all adjustments greater than £90K are shown below:

Uncorrected audit misstatements (£'000s)				
No.	Detail	CIES Dr/(cr)	Balance Sheet Dr/(cr)	Comments
1	Dr Other service expenses	189	189	- We have identified 1 item of expenditure recorded in April 2025 which relate to 2024/25 and were incorrectly not accrued for.
	Cr Creditors	-		
2	Dr Cash	-	144	Debtors balances not cleared to reflect cash in transit as at 31 March 2025.
	Cr Debtors	-		
<b>Total</b>		<b>189</b>	<b>189</b>	

# Corrected audit misstatements

Under UK auditing standards (ISA (UK) 260) we are required to provide the Governance & Audit Committee with a summary of corrected audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Corrected audit misstatements (£'000s)				
No.	Detail	SOCL Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Long-term Capital Grants Receipts in Advance	-	1,754	Classification error between long- and short-term liabilities, £1.754m moved from long-term liabilities to short term, no net impact.
	Cr Short-term Capital Grants Receipts in Advance	-	(1,754)	
<b>Total</b>		<b>£0</b>	<b>£0</b>	

## Disclosure adjustments:

- Pension Audit Adjustments - Small number of presentational disclosure changes relating to defined benefit pension scheme disclosures
- Officers' Remuneration – Various presentational adjustments including the Head of HR to be added into the senior officer note following the permanent appointment of the role. Other adjustments were required to main table and the banding table.
- Leases – Council as a Lessor – Operating leases – Note was omitted from the first draft of accounts
- Narrative Report - Various presentational adjustments

# Control Deficiencies

The recommendations raised as a result of our work in the current year are as follows:

## Priority rating for recommendations

- 1 **Priority one:** issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.
- 2 **Priority two:** issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
- 3 **Priority three:** issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
1	3	<p><b>Incorrect floor area measurements on DRC Assets</b></p> <p>During 2024/25, management identified a number of assets that had incorrect floor plans due to voids above swimming pools being counted as operational floor area, for example. Management performed a wider assessment of their property portfolio to ensure no similar issues which could rise to material misstatement of the valuation.</p> <p>There is a risk that the incorrect floor area measurements lead to incorrect valuation of PPE.</p> <p><b>Recommendation</b></p> <p>We note that management have performed an analysis to identify any assets as mentioned above and have implemented a rolling review programme of floor areas of all assets. We recommend management continue review floor areas in line with assets to ensure measurements are accurate.</p>	<p>Council Officers identified the issue regarding floor plans and pro-actively commissioned work to undertake the required assessments to ensure accurate plans were in place. A rolling programme is in place for all assets.</p> <p><b>Officer and due date</b></p> <p>Head of Property Services &amp; ICT / Senior Financial Accountant</p> <p>March 2026</p>

# Control Deficiencies

#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date
2	2	<p><b>Approval process of sale of employee annual leave entitlement</b></p> <p>We identified transactions which related to the sale of senior officer annual leave entitlement. At the time of our audit work, there was no formal policy in place which outlined the required approval process in place for this type of request.</p> <p>There is a risk of not having appropriate governance and oversight in relation to remuneration / leave requests relating to senior postholders.</p> <p><b>Recommendation</b></p> <p>We recommend management review their pay policy to ensure processes to be followed are clear in the scenario of an employee selling their annual leave entitlement in exceptional circumstances.</p>	<p>The Pay Policy Statement for 2026/27 includes a specific reference regarding the process for employees selling their annual leave entitlement in exceptional circumstances.</p> <p>This updated policy was approved by Council at their meeting on 29th January 2026.</p> <p><b>Officer and due date</b></p> <p>Senior HR Officer</p> <p>Completed</p>
3	2	<p><b>Quality of evidence and project management</b></p> <p>We encountered various delays during the audit due to insufficient evidence being provided for sample selected for testing, as well as delays due to Council staffing constraints.</p> <p>This led to audit delays and inefficiencies as additional time was required to obtain sufficient appropriate evidence.</p> <p><b>Recommendation</b></p> <p>We have proposed to hold a de-brief session with key members of the finance team to improve understanding of what the external audit involves, and the criteria to apply when providing audit evidence to support account balances.</p>	<p>The finance team have worked closely with audit colleagues to work through evidence requirements in a timely manner as much as possible to ensure the statutory backstop date is achieved.</p> <p>During the audit work there have been some delays regarding certain audit requests involving key members of staff across the organisation as a whole, which we are aware of and will be working closely with those teams to avoid this in the future.</p> <p>The council is committed to continuous improvement and working with KPMG so would welcome the opportunity to hold a lessons learnt debrief as we move into the 2025/26 closedown process.</p> <p><b>Officer and due date</b></p> <p>Assistant Director of Finance</p> <p>March 2026</p>



# Control Deficiencies (cont.)

We have also followed up the recommendations from the previous years audit, in summary:

Total number of recommendations		Number of recommendations implemented	Number outstanding (repeated below):	
4		3	1	
#	Risk	Issue, Impact and Recommendation	Management Response/Officer/Due Date	Current Status (February 2026)
1	③	<p><b>Review of bank reconciliations</b></p> <p>We have performed a walkthrough of the bank reconciliation process and have identified that the monthly reconciliation is performed by the Senior Systems Accountant within the exchequer team. Given his seniority within the team, there is no appropriate personnel within the team to review the reconciliation he has performed.</p> <p>The reconciliation was therefore reviewed by the deputy director of Finance when necessary and therefore the review is not performed each month.</p> <p>We recommend that reconciliations are reviewed each month by an appropriately senior reviewer</p>	<p>Management accept this recommendation and will ensure all monthly bank reconciliations will be reviewed and approved by a senior officer.</p> <p>Officer: s151 Officer</p> <p>Due Date: March 2025</p>	<p>The recommendation was not implemented by 31 March 2025, but following the move to Unit 4 the Council have put in place a sign off process for bank reconciliations since August 2025.</p> <p>We will review this as part of the 2025/26 audit.</p>

# FRC's areas of focus

The FRC released their [Annual Review of Corporate Reporting 2024/25](#) (the 'Review') in September 2025 which also incorporated the outcomes of two limited scope thematic (the 'thematics').

The Review and theatics identify where the FRC believes companies can improve their reporting. These slides give a high-level summary of the key topics covered. We encourage management and those charged with governance to read further on those areas which are significant to their entity.



## Key expectations for 2025/26 annual reports

### Overview

The Review identifies that the quality of reporting across FTSE 350 companies has been maintained however, there remains a quality gap between FTSE 350 and other companies.. The FRC continue to focus on proportionality and materiality in their work and fewer substantive queries and restatements have been identified in the current year.

For the 2025/26 reporting season, the reporting areas the FRC believe companies should focus on remain consistent with recent years, given stable reporting requirements and recurring themes.

The FRC's top three focus areas remain consistent with the previous period including 'Impairment of assets', 'Cash Flow Statements' and 'Financial Instruments'. The FRC also note that the lack of internal consistency within the annual report and accounts continues to be a key driver of queries.

### Pre-issuance checks and restatements

The FRC expects companies to have in place a sufficiently robust self-review process to identify common technical compliance issues. Fewer queries would also be raised if there were clear, company-specific accounting policies for these key accounting matters.

The reviewer should take a step back and consider whether the annual report tells a consistent and coherent story throughout the narrative reporting and financial statements.

### Risks and uncertainties

Geopolitical and economic risks remain high and, in this context, the FRC continue to push for clear and consistent disclosures about judgements, risks and uncertainties. Disclosures should be sufficient to allow users to understand the position taken in the financial statements, and how this position has been impacted by the wider risks and uncertainties discussed elsewhere in the annual report.

### Narrative reporting

The FRC reminds preparers to consider the overarching requirements of the UK financial reporting framework in determining the information to be presented, particularly in relation to narrative reporting. Companies should focus on the requirement for a true and fair view, along with a fair, balanced, and comprehensive review of the company's development, position, performance, and future prospects.

The FRC does not expect companies to provide information that is not relevant and material to users, however, they should ensure that they carefully comply with all applicable requirements, including climate-related reporting requirements.

Companies should also consider including disclosures beyond the specific requirements of the accounting standards where this is necessary to enable users to understand the impact of particular transactions or other events and conditions on the entities financial position, performance and cash flows.

# FRC's areas of focus (cont.)



## Impairment of assets

Impairment remains a key topic for the FRC. There have been no restatements in the current year, but many disclosures have been identified as requiring improvement.

Disclosures should provide adequate information about key inputs and assumptions, and these should be consistent with events, operations and risks noted elsewhere in the annual report and accounts (the 'ARA'). These should be supported by a reasonably possible sensitivity analysis as required.

Forecasts should reflect the asset in its current condition when using a value in use approach and forecasts should not extend beyond five years without explanation.

Preparers should also ensure that goodwill is allocated to a monitored CGU or group of CGUs that is no larger than an operating segment.

## Cash flow statements

Cash flow statements remain the most common cause of prior year restatements.

Companies must carefully consider the classification of cash flows and whether cash and cash equivalents meet the definitions and criteria in the standard. The FRC encourage a clear disclosure of the rationale for the treatment of cash flows for key transactions.

Cash flow netting is a frequent cause of restatements, and this was highlighted in the previous '[Offsetting in the financial statements](#)' thematic. Further, materially dissimilar classes of cash flows (e.g. purchases of tangible vs. intangible assets) should be presented separately.

Preparers should ensure the descriptions and amounts of cash flows are consistent with those reported elsewhere and that non-cash transactions are excluded but reported elsewhere if material.

## Financial instruments

The number of queries on this topic remains high, with inappropriate application of offsetting requirements resulting in all identified restatements.

Companies are reminded that cash and overdraft balances should only be offset when they meet the qualifying criteria, including the intention to settle net or realise assets and liabilities simultaneously.

Companies should ensure sufficient explanation is provided of material financial instruments, including company-specific accounting policies.

Disclosures on risks should show the nature and extent of material risks, including credit risk, arising from financial instruments and the related risk management.

Expected credit loss provisions should explain the significant assumptions applied, including concentrations of risk where material.

## Presentation

Companies should provide clear, company-specific material accounting policy information so users can understand unusual or complex transactions. Information on these transactions should be consistent with information elsewhere in the ARA.

Common restatement areas such as the classification of receivables as current or non-current, or the presentation of material financial asset impairment losses on the face of the income statement, should be identified by a thorough self-review.

## Revenue

Questions raised in this area focussed on the clarity of the accounting policy and significant judgement disclosures.

For each material revenue stream, the accounting policy should cover the timing of revenue recognition, the basis for recognising revenue over time and the methodology. If the application of the accounting standards required significant judgement, this should also be disclosed.

## Strategic report and Companies Act

The Strategic report must provide an unbiased discussion of all aspects of a company's development, position, performance and future prospects. In the case of a quoted company there should also be a clear description of its strategy and business model.

Companies should ensure they comply with all the statutory requirements for making distributions.

## Judgements and estimates

Disclosures over judgements and estimates are particularly important during periods of economic and geopolitical uncertainty. Disclosures should include sufficient, appropriate detail and be written in simple language. Sensitivities or ranges of possible outcomes should be provided to allow users to understand these judgement and estimates.

Areas of estimation uncertainty with a significant risk of a material adjustment within one year should be distinguished from other estimates.

# FRC's areas of focus (cont.)

## Income taxes

Evidence supporting the recognition of deferred tax assets should be disclosed in sufficient detail and be consistent with information reported elsewhere in the ARA.

Where applicable, the effect of Pillar Two income taxes should be disclosed.

## Consolidated financial statements

Disclosures of the factors affecting control judgements should be consistent with other disclosures in the ARA. The disclosure must meet the requirements of IFRS 10.

## Climate

Compliance with Taskforce for Climate-related Financial Disclosures (TCFD) has improved. The FRC reviewed compliance with Companies Act 2006 Climate-related Financial Disclosures (UK-CFD) for the first time this period. As a result, companies are reminded that UK-CFD disclosures are mandatory and cannot be 'explained' or included in another document.

Disclosures should focus only on material climate-related information and should be concise and company specific. The impact of material climate factors should also be addressed within the financial statements.

## Thematic reviews

The FRC has issued five thematic reviews this year. 'Climate-related Financial Disclosures by AIM and Large Private Companies' was issued in January 2025 and is considered further on slide [X]. The key findings of the other theamics are outlined below. The FRC expect to issue a further thematic on 'Reporting by the UK's smaller listed companies' before the end of 2025.

### Supplier finance arrangement disclosures

The key recommendations from this limited-scope review are:

- Provide high quality disclosures on the use of supply-chain financing (SCF) proportionate to the risks faced.
- Explain how SCF impacts liabilities and cash flows disclosing any judgements if relevant.
- Describe how SCF impacts liquidity risk and how liquidity risk is managed.

### Review of disclosures of a pension accounting surplus

Pension surplus disclosures may be of heightened interest if proposed changes to employer's access to surpluses go ahead.

This review identified divergent practice in whether to recognise an asset when pension scheme trustees have the right to enhance benefits or wind up the scheme without the company's consent. Companies should:

- Clearly describe the basis on which the surplus is recognised (or restricted) including the impact of any trustees power.
- Consider whether disclosures around the technical funding position would be helpful to users' understanding of the amounts recognised in the financial statements and future contributions.
- Describe the nature and scale of bulk annuity policies or insurance transactions and the accounting treatment applied.

### Share-based payments

This thematic focussed on listed companies with significant share-based payment (SBP) arrangements. Companies are encouraged to:

- Clearly explain the valuation technique used and assumptions made, in determining the fair value of instruments granted.
- Disclose the accounting policy and judgements regarding the choice of settlement, including the implications of any cash-settlement.
- Provide material disclosures which are clear and concise, cross-referencing and aggregating to avoid duplication.
- Assess if excess tax deductions have been recognised directly in equity.
- Consider the effect of group arrangements on individual companies and distributable reserves.

### Investment trusts, venture capital trusts and similar closed-ended entities

The accounting for these entities is typically straightforward, however this thematic asks these entities to:

- Explain valuation techniques and provide sufficient meaningful disclosures on unobservable inputs to level 3 measurements e.g. weighted averages when the range of inputs is wide.
- Disclose sensitivities for level 3 measurements, when required.
- Ensure that APMs are appropriately used, reconciled to the nearest GAAP measure or otherwise explained.
- Clearly explain the basis for significant judgements on whether the IFRS 10 investment entity definition is met.

# KPMG's Audit quality framework

**Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.**

To ensure that every director and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework.

Responsibility for quality starts at the top through our governance structures as the UK Board is supported by the Audit Oversight (and Risk) Committee, and accountability is reinforced through the complete chain of command in all our teams.

## ■ Commitment to continuous improvement

- Comprehensive effective monitoring processes
- Significant investment in technology to achieve consistency and enhance audits
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

## ■ Performance of effective & efficient audits

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching, including the second line of defence model
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Insightful, open and honest two way communications

## ■ Commitment to technical excellence & quality service delivery

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



## ■ Association with the right entities

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

## ■ Clear standards & robust audit tools

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- KPMG Clara incorporating monitoring capabilities at engagement level
- Independence policies

## ■ Recruitment, development & assignment of appropriately qualified personnel

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members employed KPMG specialists and specific team members



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