

AUDIT COMMITTEE

**Venue: Town Hall, Moorgate
Street, Rotherham. S60
2TH**

Date: Wednesday, 23 April 2014

Time: 4.00 p.m.

A G E N D A

1. To determine if the following matters are to be considered under the categories suggested in accordance with the Local Government Act 1972.
2. To determine any item which the Chairman is of the opinion should be considered as a matter of urgency.
3. Minutes of the previous meeting held on 5th February, 2014 (herewith) (Pages 1 - 5)
4. Audit and Inspection Recommendations Update Report (herewith) (Pages 6 - 12)
5. Corporate Risk Register (report herewith) (Pages 13 - 23)
6. Internal Audit Plan 2014/15 (report herewith) (Pages 24 - 37)
7. Audit Committee Annual Report 2013/14 (report herewith) (Pages 38 - 50)
8. Internal Audit Annual Report 2013/14 (herewith) (Pages 51 - 66)
9. KPMG External Audit Plan 2013/14 (report herewith) (Pages 67 - 94)
10. Closure of Accounts 2013/14 (report herewith) (Pages 95 - 103)

**AUDIT COMMITTEE
5th February, 2014**

Present:- Councillor Sangster (in the Chair); Councillors Gilding, Kaye, Sharman and Sims.

P23. MINUTES OF THE PREVIOUS MEETING HELD ON 18TH DECEMBER, 2013

Consideration was given to the minutes of the previous meeting of the Audit Committee held on 18th December, 2013.

Resolved:- That the minutes of the previous meeting be approved as a correct record for signature by the Chairman.

P24. KPMG GRANTS REPORT 2012/13

Consideration was given to a report presented by Stuart Booth, Director of Finance, and a representative of KPMG, which advised the Audit Committee of the matters arising from the external audit of the Council's 2012/13 government grants and returns.

The report provided a summary of KPMG's key findings from the certification work they have carried out in 2012/13.

The main findings were:-

- KPMG were required to audit five claims and returns in 2012/13 with an aggregate value of £208 million and issued a qualification certificate for one return and unqualified certificates for the remaining four grants and returns.

The Housing and Council Tax Benefit claim was qualified for four separate issues, two of which have no impact on the subsidy, one which was awaiting a response from the system suppliers and one qualification issue which could reduce subsidy entitlement by £4k - this was dependent on the conclusion reached by the Department of Work and Pensions (DWP). Independent to this was a small adjustment to reduce subsidy entitlement by £4k which represents 0.004% of the claim value (£112m).

KPMG have commented that this grant was a very complex and high value grant and the relatively low number and value of amendments/qualification issues represented good performance at preparing this grant claim relative to other local authorities.

- The Council had good arrangements in place to ensure the efficient and effective preparation and submission of claims and returns and which supported the audit process. In particular, working papers

were of a good standard and officers responded promptly to audit queries.

These positive findings demonstrated that the Council continued to maintain the high standard achieved in recent years.

Keeping audit fees at this low level is a direct result of this Council continuing to prepare substantially accurate and complete claims within agreed timeframes and with good supporting working papers. This enables KPMG to place assurance on the Council's arrangements and therefore keep the audit fees for carrying out their grant certification work to a minimum.

The Audit Committee sought clarification on the nature of the qualification certificate, the sampling techniques used by KMPG and the nature of some of the detected errors.

Resolved:- (1) That the external auditor's report be noted.

(2) That the sustained good performance of the Council in both preparing and submitting its 2012/13 grant claims and returns and reduced fees for carrying out grant certification work be noted.

P25. REVIEW OF PROGRESS AGAINST THE INTERNAL AUDIT PLAN FOR THE NINE MONTHS ENDING 31ST DECEMBER, 2013

Consideration was given to a report presented by Colin Earl, Director of Audit and Asset Management, which provided a summary of Internal Audit work and performance for the nine months ending 31st December 2013 and showed that the service continued to perform at a high level across all indicators. One piece of work undertaken had led to the recovery of £20,000 on behalf of the Council.

Like many services within the Council, Internal Audit was diminishing in size. However, by using a risk based approach to planning and efficient management of resources, it was expected to be able to fulfil its minimum statutory responsibilities to give an opinion on the Council's internal control environment and to complete the work on fundamental accounting systems expected by the external auditor for the 2013/14 financial year.

Based upon the work undertaken in the period, Internal Audit were able to confirm that the Council's control environment was adequate and was operating satisfactorily.

Further information was provided on performance against a number of indicators which was slightly below for completing audits within planned time due to staff sickness.

Reference was also made to the audit reports and recommendations from planned work which showed there were opportunities to strengthen arrangements in some areas.

A summary of key service developments during this period was also provided, which highlighted that the service had secured some income generating work following a request from Wingfield Academy.

The Audit Committee were pleased to see that the work of Internal Audit was incredibly consistent, but sought clarification on the circumstances for responsive work requests and the recommended actions set out in the report.

Resolved:- (1) That the performance of the Internal Audit Service during the period be noted.

(2) That the key issues arising from the work done in the period be noted.

P26. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2014/15 TO 2016/17

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which detailed that, in accordance with the Prudential Code for Capital Finance, the Secretary of State's Guidance on Local Government Investments, the CIPFA Code of Practice for Treasury Management in Local Authorities and with Council policy, the Director of Finance was required, prior to the commencement of each financial year to seek the approval of the Council to the following:-

- The Prudential Indicators and Limits for 2014/15 to 2016/17.
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on Minimum Revenue Provision.
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit.
- An Investment Strategy in accordance with the Department for Communities and Local Government (CLG) investment guidance.

Following the events of October 2008 and in light of the current and on-going economic and financial climate, the Director of Finance took a series of actions to evaluate the Council's Investment Strategy and manage the treasury management function.

The Council's investment policy's continuing primary governing principle was the security of its investments, although yield or return on investments was also a consideration.

The revised operational guidelines enhanced the weighting towards 'security' even further at the expense of yield or return. Although seeking to minimise investment default risk, it did not eliminate it. Eliminating risk

altogether was only possible if the Council only invested any surplus funds with the Bank of England's Debt Management Office (DMO).

The Council continued to operate the treasury management guidelines well within the boundaries set by the approved selection criteria so as to minimise the risks inherent in operating a treasury management function during volatile and adverse economic and financial conditions. To this end, the Council has continued to invest any surplus funds primarily with the Bank of England's Debt Management Office.

In addition, investment levels over the last twelve months remain low as market conditions still dictated that it continued to be prudent to defer borrowing plans and to fund on-going capital commitments through the use of the Council's internal cash-backed resources.

Actual returns on investment opportunities remain subdued when compared to previous years but have been effectively and prudently managed by significantly reducing expected capital financing costs by delaying borrowing plans. This enabled the Council to stay within its capital financing budget cash limit and for budget savings to be put forward in support of both the Council's 2013/14 and 2014/15 revenue budget. This was a significant achievement given the difficult economic and financial conditions prevailing throughout the current financial year.

The Council's counterparty list for investments, with whom the Council did business, used the criteria as set out in the report and provided the Council with the opportunity to maximise security of any invested funds by allowing all funds to be placed with the DMO and UK Single Tier and County Councils and reducing the maximum level and time of investments that could be placed with financial institutions that do not meet all the upper limit credit rating criteria.

Further information was provided on the restructuring of the Co-operative Bank following its decision to withdraw from banking services to Local Authorities and a tendering process was due to start with progress report on the tendering of banking services being presented to Members in due course.

In terms of the Prudential Indicators it was noted that only schemes in the Council's approved capital programme were included in the indicators as listed and that there may be further schemes pending approval. Any additional approvals would normally have to be funded from unsupported borrowing as all identified available resources have been allocated. This would impact on the prudential indicators as set out in the report.

There were four treasury prudential indicators, the purpose of which was to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. The indicators submitted for approval were shown in detail as part of the report.

The limits for interest rate exposures were consistent with those approved within the Mid-Year report on the 2013/14 Strategy; in line with the requirements of the new Code the maturity structure detail had been updated and extended; and the investment limits beyond 364 days have been maintained to reflect the continued investment strategy.

The Audit Committee noted the complexity of the information which had to be presented and suggested that a covering Executive Summary be provided for assistance with all future report submissions.

An update was also provided on the current investments of the Council and the how the Treasury Management and Investment Strategy sought to minimise the risks in operating the Treasury Management function during these difficult economic and financial conditions.

Resolved:- That Cabinet be asked to recommend to Council:-

- i. The approval of the prudential indicators and limits for 2014/15 to 2016/17 contained in Appendix A to the report.
- ii. The approval of the Minimum Revenue Provision Statement contained in Appendix A which sets out the Council's policy on Minimum Revenue Provision.
- iii. The approval of the Treasury Management Strategy for 2014/15 to 2016/17 and the Authorised Limit Prudential Indicator (Appendix B).
- iv. The approval of the Investment Strategy for 2014/15 to 2016/17 (Appendix B – Section (e) and Annex B1).

ROTHERHAM METROPOLITAN BOROUGH COUNCIL

1. Meeting:	Audit Committee
2. Date:	23 April 2014
3. Title:	Audit and Inspection Recommendations Update Report
4. Directorate:	Resources

5. Summary

This report summarises the progress against recommendations from across all key external audits and inspections of council services.

6. Recommendations

That the Audit Committee:

- **Note the progress achieved against outstanding actions**
- **Advise further actions as necessary**

7. Proposals and Details

It is intended that this report provides a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the date of the last report (September 2013). A summary of these are detailed within the table in Appendix A. In summary;

- Since the last report there have been three new inspections of Adult Social Care registered services:
 - Shared Lives Service - confirmed as fully compliant
 - Park Hill Lodge - confirmed as fully compliant
 - Tree Fields – awaiting report but expected to remain fully compliant.

In addition there has been a re-inspection of the Enabling Service in March 2014 by the Care Quality Commission (CQC) to review compliance against the findings and recommendations made following the inspection in June 2013. The service has been confirmed as fully compliant.

- There are currently 3 action plans relating to Inspection and Audit recommendations which are still “active” in the authority (i.e. contain outstanding recommendations which are still relevant).
- Across these action plans 39 recommendations have been completed and 3 remain outstanding.

The monitoring of Audit and Inspection recommendations provides evidence that the Council is able to respond to external challenge in a timely manner and is committed to continuous improvement. Additionally through analysing the recommendations we are demonstrating our ability to identify and rectify detrimental trends or issues and to deliver service improvement.

Progress against Recommendations

Since the previous report progress against recommendations is good with clear actions identified and routes to monitor in progress in place.

All recommendations are now complete for:

- Youth Offending Service – Short Quality Screening inspection by the Youth Justice Board.
- Children’s and Young Peoples Services (CYPS) - Fostering Inspection by Ofsted.

A small number of timescales for individual improvement actions have slipped, however all plans are on track to be completed and are reviewed regularly by Directorates.

Analysis of outstanding recommendations

Progress against all outstanding audit and inspection recommendations of council services are monitored by Performance & Quality Teams. Currently there are 3 recommendations which need addressing. All are currently being progressed and monitored within Directorates.

1. Public Health - Audit Commissions review of Health Inequalities - 2009

In relation to the Audit Commissions review of Health Inequalities in 2009 which relates to breastfeeding. There are on-going challenges relating to performance which is below target both at initiation and continuation of breastfeeding at 6-8 weeks. Contributing factors are being explored given the major changes to NHS commissioning and strain on budgets.

The Rotherham Foundation Trust (TRFT) Maternity Service is working towards full accreditation of the Unicef Baby Friendly Initiative (BFI) to enhance the breastfeeding delivery. Currently the TRFT are at Stage 2 of the 3 stages required to achieve this quality standard for breastfeeding support nationally. The community have stalled in their progress towards this Unicef BFI accreditation, however work is underway with the commissioners of these services to push this agenda forward and to work to improve the Rotherham breastfeeding rates.

2. CYPS - Unannounced Inspection of Child Protection

Inspection undertaken in July 2012.

Although the majority of actions in respect of the report have now been completed, Activities to raise awareness have been undertaken and we are now aware of more private fostering arrangements which has resulted in an increase in the number of identified private fostering arrangements.

Work is also taking place around domestic abuse referrals and the development of a Multi- Agency Safeguarding Hub will assist with the improvements of this issue further.

3. CYPS - Thematic Inspection of Disability Services

Inspection undertaken in March 2012.

The majority of actions have been completed in relation to this inspection. Work is currently underway to enable the production of quality system data, needed to support the improvements required in relation to performance management arrangements and address the outstanding recommendation.

OFSTED Preparation for new inspection framework

Mock inspections in preparation for the new Ofsted Single Assessment Framework and Quality Assurance activity have identified some concerns where additional remedial action has been required in respect of recommendations previously thought to be closed these continue to be part of the quality assurance and consolidation activity.

A summary of progress against all recommendations from "Active" Inspection & Audit action plans is provided in Appendix A. The Performance and Quality Team continue to work with services to ensure that the associated outstanding recommendations are

completed and ensure services are prepared for new or changing inspection and assessment regime.

New Inspection Reports received

There have been 3 new inspections since the last report:

Adult Social Care – Report on the Registered Enabling Service in Rotherham

CQC Inspections are undertaken on an ongoing annual basis.

Last year April 2013 to March 2014 all 8 adult social care registered services were inspected by CQC and received judgements of fully compliant.

To date this year April 2014 to March 2015 of the 8 services 1 area has been inspected and is awaiting formal feedback following recent inspection.

1. Adult Social Care - Shared Lives Service

Inspection undertaken on 27 January 2014 by the CQC

Following the inspection a judgement of fully compliant was received.

2. Adult Social Care - Parkhill Lodge Residential Care Home

Inspection undertaken on 17 January 2014

Following the inspection a judgement of fully compliant was received.

3. Adult Social Care – Tree Fields Residential Care Home

Inspection undertaken by the CQC on 8 April 2014 by the CQC, currently awaiting outcome but expected to remain compliant.

The 'Enabling Service' has now been re-inspected on 20th February, 2014 and has received a judgement of fully compliant. The service received positive feedback from the CQC inspector that the issues documented below, have been successfully addressed.

An inspection of the Councils 'Enabling Service' in June 2013 resulted in one area of minor non-compliance regarding Quality Assurance (outcome 16). This related to the inspectors not being satisfied by the QA arrangements put in place by the registered manager. This service has now fully implemented an agreed CQC action plan under the management of a new registered manager.

New OFSTED Single Assessment Framework

The new Ofsted inspection framework to inspect services for 'children in need of help and protection, children looked after and care leavers' came into effect in November 2013. This replaces 4 former frameworks.

In addition it proposes three key judgements with a judgement of 'inadequate' in any of these three judgements leading to 'inadequate' in overall effectiveness.

As at the 9 April eleven Authorities had been inspected under the new framework and received the following judgements:

- Derbyshire, East Sussex, Essex, Hartlepool, Staffordshire – Good
- Bolton, Hillingdon, Hounslow and Sheffield – Requires Improvement
- Coventry and Slough - Inadequate

Work is underway within CYPS to ensure that should inspectors arrive plans and evidence are in place to meet their requirements and to facilitate their needs. The Performance and Quality Team are working with operational managers to ensure that a robust evidence

bank is in place, that Annex A (the key document which is required on Day 1 of the inspection) is fully populated ready for the commencement of the inspection.

Standards of Education

There is an expectation from OFSTED and the Department for Education that Local Authorities support schools to ensure that they provide a good or better standard of education to the pupils in the area. There are 451 regulated inspections in CYPS, of which currently 71.3% of schools (Nursery, Primary, Secondary, Special & PRU) are judged by OFSTED as good or better, this compares with 67.2% in 2013 and 65.4% in 2012. Nationally it appears that there has been an overall increase of 8% from 70% (31.08.12) to 78% (31.08.13) in schools judged good or outstanding.

A new framework has recently been introduced by OFSTED which looks at the effectiveness of School Improvement Services in supporting schools around their OFSTED inspections. Preparation is underway by our School Effectiveness Service with a self-assessment being undertaken, although Rotherham were part of an early pilot last year and had received positive feedback from the OFSTED inspectors who were on site.

Other Routine Inspections

Routine inspections undertaken in relation to children's homes, schools, children's centres and residential care homes are reported to the relevant cabinet member/portfolio holders for each service and therefore do not form part of this report.

8. Risks and uncertainties

Any risks and uncertainties are highlighted in the report above and should be noted as a matter of interest in light of the potential impact on other aspects of Council performance.

It is essential that in this time of uncertainty and in the absence of any national performance regime (other than children and adult services) that we continue to be able to demonstrate continuous improvement and self regulation through the implementation of any previously recommended actions.

9. Policy and Performance Agenda Implications

Approaches to inspection and assessment of local authorities are being developed across Government in the light of the decentralisation and localism agenda. In future any central inspection will be focused on the most vulnerable i.e. help to maintain high standards in children's services and adult social care. Intervention will focus on cases of serious risk or failure.

10. Background Papers and Consultation

- All inspectorates' reports, letters and action plans since mid 2007.
- All new and follow up audit reports.
- All inspectorate frameworks, arrangements and guidance documents
- Ofsted Schools Inspection Reports

Contact Names:

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Michelle Hill, Performance and Improvement Officer, ext. 334255,
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Summary of Recommendations from “Active” Inspection & Audit action plans (which took place from 2007 to Present)

With summary of progression against recommendations since the last report and in total

Inspection / Review (date)	External Assessor	Number of recommendations	Implemented at last report	Implemented since last report	Still outstanding	Overall Completion Date for Recommendations	STATUS
Public Health							
Addressing Health Inequalities (January 09)	AC	10	9	0	1	On-going	On-going
Neighbourhoods and Adults Services							
Adult Social Care – Report on the Registered Enabling Service in Rotherham	CQC	1	0	1	0	Jan 14	Complete
Children and Young Peoples Services							
Thematic inspection of disability services (March 12)	Ofsted	11	10	0	1	Apr 14	On-going
Unannounced inspection of child protection (July 12)	Ofsted	13	12	0	1	Apr 14	On-going
Youth Offending Service – Short Quality Screening (Nov 12)	Youth Justice Board	5	2	3	0	Feb 14	Complete
Fostering Inspection (July 13)	Ofsted	2	0	2	0	Mar 14	Complete
Total Recommendations in “Active” Inspection & Audit action plans		42	33	6	3		

1.	Meeting:	Audit Committee
2.	Date:	23 April 2014
3.	Title:	Corporate Risk Register
4.	Directorate:	Environment & Development Services

5. Summary

Attached to this report is the current Corporate Risk Register summary. The summary shows the risks associated with the Council's most significant priorities and projects, and actions being taken to mitigate these risks.

The Council's key current risks continue to relate to the financial pressures faced by the Council. There are also significant risks associated with achieving economic growth and the impact of the welfare reforms.

Risks associated with Digital Region have been lowered to reflect the decision by South Yorkshire councils to close the network and the expectation that funding for closure is in place.

6. Recommendations

The Audit Committee is asked to:

- note the Corporate Risk Register summary attached at Appendix A
- confirm the current assessment of the Council's top corporate risks
- indicate any further risks or opportunities that it feels should be added to the risk register.

7.1 Format

This report contains the latest position on the Corporate Risk Register. The Corporate Risk Register summary is attached at **Appendix A**. This reflects the current risk assessments for each corporate priority or project in the Corporate Risk Register.

This covering report highlights the top inherent risks.

There are 3 overall categories of risk (RED, AMBER, GREEN) representing varying degrees of exposure. Each category contains a range of risk scores, so there are varying degrees of risk within each category. Appendix A shows the risk category and score for each priority or project included in the register before and after risk mitigation actions.

7.2 Highest inherent risks

The risk register summary shows risks in descending inherent risk order, to emphasize the most significant risks faced by the Authority. The top risks requiring close monitoring are:

- Managing Government budget reductions - unable to maintain key services due to budgetary limits.

Despite very challenging circumstances, the Council has maintained its successful track record of containing spending within available budget. This performance is to the Council's credit. However, the Council has to save a further £40m+ in 2014/15 and 2015/16, making it even harder to manage within available resources.

The Council is changing the way it works with communities and its citizens to meet their needs in response to the significance of the financial challenges facing the Council that lie ahead. SLT and Cabinet will continue to monitor very closely the overall financial performance and position of the Council and put in place a strategy to take proportionate and appropriate actions to ensure the Council budget and financial position is sustainable.

- Welfare Reforms

Government welfare reforms implemented from April 2013 are beginning to have substantial implications for residents affected by benefits reductions and there is a knock-on impact on Council services.

Services are tracking implications and informing Members as appropriate, so that appropriate decisions can be made where necessary.

- Delivering effective Children's Services within budget

On-going action is being taken by management to provide services within the budget available. Cabinet is being kept informed of the relevant financial challenges as part of the budget monitoring and budget setting processes and is making decisions accordingly.

- Economic Growth

The risk associated with achieving Economic Growth remains Red in recognition of the on-going weak economic conditions.

7.3 Other key developments / changes during the period

A new risk has been added at the request of the Public Health service relating to pandemics and communicable diseases. This not only addresses the major risk currently posed to that service but also illustrates the changing face of the authority and its responsibilities.

Two risks have been removed from the register:

- Making best use of properties and expanding Worksmart; The move to Riverside and extended 'worksmarting' of other office-based staff along with good performance in disposing of surplus properties, mean these aims are sufficiently progressed to warrant this risk's removal from the corporate risk register. It will continue to be reviewed as part of the EDS top priorities / risk register
- Financial impact of mesothelioma claims to be paid through Municipal Mutual Insurance, as the impact is now more clearly known and has been fully provided for.

The Corporate Priorities column has also been updated to reflect the newly defined Corporate Priorities for the period 2013-16.

8. Finance

The risks contained in the register require ongoing management action. In some cases additional resources may be necessary to implement the relevant actions or mitigate risks. Any additional costs associated with the risks should be reported to the SLT and Members for consideration on a case by case basis.

9. Risks and Uncertainties

It is important to review corporate risks on an ongoing basis, to ensure risks relating to the Council's key projects and priorities are effectively monitored and managed by the Strategic Leadership Team and Members.

10. Policy and Performance Agenda Implications

Risk Management is part of good corporate governance and is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation

This report reflects the latest updates provided by the respective 'lead officers'.

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033

Andrew Shaw, Insurance and Risk Manager, x22088

Appendices

Appendix A Corporate Risk Register Summary

APPENDIX A: SUMMARY CORPORATE RISK REGISTER

No	Risk	Pre Controls 1- 25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0027	Managing Government budget reductions - unable to maintain key services due to budgetary limits	25	<u>Martin Kimber</u> <ul style="list-style-type: none"> • High priority, driven through Strategic Leadership Team and Cabinet • Actions to mitigate budget reductions are continually being identified • Budget principles have been revised which will see a different approach to the way services are delivered. 	20	All Priorities
0037	Welfare Reform: <ul style="list-style-type: none"> • Significant pressures arising from the localisation of various resources and a reduction in overall funding available, limited administration capacity and reduced collection of Council Tax. • Potential major impact of reduced housing benefits, leading to higher debts, increasing demand for shrinking services, and increasing poverty and vulnerability. Potential to increase gap in communities' needs. • Negative overall impact on the local economy, with spiralling consequences. • Potential increase in crime. 	25	<u>Karl Battersby</u> <ul style="list-style-type: none"> • Effective communications especially in relation to discretionary benefits administered by the Council and arrangements for assisting those in need to access benefits. • Additional HRA resources are being deployed to support Council tenants. • The significant risk is now associated with uncertainty over the introduction of Universal Credit by the Government. Implementation should have commenced in October 2013, but there is still no date or any other details as the nationwide programme has slipped. • Contract with LASER credit union has been extended until March 2015 and Depot for supply of food to local food banks is now open offering further opportunities. 	16	All Priorities

No	Risk	Pre Controls 1- 25	Lead officer Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0022	Unable to deliver effective Children's Services within budget	25	<u>Joyce Thacker</u> <ul style="list-style-type: none"> • Continuous monitoring of budget and reporting to SLT / Cabinet • On-going monitoring and reporting of budget position, with improvement expected in the budget outturn position. • Ofsted inspection profile maintained / improved. • Strategy in place for 14/15 to create additional capacity for teenage foster placements to reduce reliance on out of authority placements. 	16	Priority 2: Protecting our most vulnerable people and families, enabling them to maximise their independence
0040	Developing economic growth, increase business rates income and increase opportunities for residents	20	<u>Karl Battersby</u> <ul style="list-style-type: none"> • Significant and previously successful inward investment activity • Detailed support programme for local businesses • High quality start up facilities • Maximising location and transport advantages. 	16	All Priorities
0033	Funding of the Digital Region Project to provide comprehensive broadband facilities across South Yorkshire	20	<u>Martin Kimber</u> <ul style="list-style-type: none"> • A decision has been taken by South Yorkshire Councils to close the network in an orderly and solvent manner, following BIS's decision (as the major shareholder) to withdraw future funding for the project. • Closure plan progressing. • Funding for closure in place; at this stage funding is considered sufficient to meet expected liabilities. 	12	Priority 1: Stimulating the local economy and helping local people into work

No	Risk	Pre Controls 1- 25	Lead officer Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0021	Failure to sustain improvement in Children's Services	20	<p>Joyce Thacker</p> <ul style="list-style-type: none"> • Attainment at Key Stage 4 in the 5 + A* - C, including English and Maths, is 3.3% above national average. 5 + A* - C in all subjects is 2.1% above national average. • Key Stage 2 attainment in reading, writing and maths combined increased 1.6% to 71.6% against current national average of 76%. Gap reduced by 0.6% during 12/13. • Investigation by South Yorkshire Police continues into historical Child Sexual Exploitation cases. • OFSTED is now operating under a new inspection framework for Children's Services which is a much harder test and now encompasses the whole of Safeguarding Children and Families activities under a single framework. Preparation for inspection is underway and being monitored by the CYPS Improvement Panel. • Appointment successful for permanent Director of Safeguarding, Children and Families. • External reviews undertaken of front door, child in need teams and LAC. • 71.4% of 451 Ofsted regulated services good or better • School Improvement Self-Assessment completed. 	12	Priority 2: Protecting our most vulnerable people and families, enabling them to maximise their independence

No	Risk	Pre Controls 1- 25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0041	Improving health and well-being	20	<u>Tom Cray</u> <ul style="list-style-type: none"> • Health and Wellbeing strategy in place and being delivered through a set of six workstreams, monitored by a multi-agency steering group. • Strong focus on prevention, independence and helping people to help themselves. • Public health fully integrated into the council and improvements planned through the Public Health Outcomes Framework via the Public Health Commissioning Plan • The Better Care Fund plan has been developed to increase integrated working across health and social care and a first submission for Better Care Funding has been made 	12	Priority 4: Helping people to improve their health and wellbeing and reducing inequalities within the borough
0044	Family Poverty <ul style="list-style-type: none"> • Tackling poverty is a key priority for the Health and Wellbeing Board and the 11 most deprived neighbourhoods agenda 	20	<u>Joyce Thacker</u> <ul style="list-style-type: none"> • ‘Families for Change’ programme established and contract let • Early help family support programme in place • Ofsted evidence shows that schools are making effective use of the additional pupil premium funding designed to help disadvantaged families. • Level and eligibility for free school meals is up from 7,997 in 2012 to 8,098 in October 2013. Take up was 74.28% in 11/12 and is now 80% • Work is underway for the ‘Free School Meals’ offer for all Key Stage 1 pupils. 	12	Priority 2: Protecting our most vulnerable people and families, enabling them to maximise their independence

No	Risk	Pre Controls 1- 25	Lead officer Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0031	Academies, Free Schools and other school settings - Potential impact on LA schools and the Council e.g. loss of revenue, falling pupil numbers, reduced attainment, breakdown in relationships etc	16	<p>Joyce Thacker</p> <ul style="list-style-type: none"> • By April 2014 there will be 24 schools in the Borough converted to Academy status. Relationships have been maintained and all schools continue to sign up to the Rotherham School Improvement mission. • School Governing Bodies continue to meet in whole Learning Community meetings, exploring the implications of Academy conversion, collaborative / partnership working and other models • Continue to enhance current strong working relationships with converted and proposed future Academy Trusts. • Academy sponsor for the new Central Primary School has been selected by a convened panel, approved by Cabinet and DfE notified. • The first Free school application is in to set up an Alternative Provision/ Pupil Referral Unit in Rotherham • Maximise potential for income generation with Academies through the provision of quality services via competitive SLA agreements. 	12	Priority 2: Protecting our most vulnerable people and families, enabling them to maximise their independence

No	Risk	Pre Controls 1- 25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0030	Schools Collaboration- impact of schools commissioning on LA services	16	<u>Joyce Thacker</u> <ul style="list-style-type: none"> • Monitoring of schools' appetite for change is on-going. Positive discussions continue between the Rotherham School Improvement Partnership and Teaching School Alliance • Portfolio of services review completed. Schools and Academies continue to procure many RMBC services at present via Service Level Agreements • Work continues in relation to the new schools funding arrangements effective from 2015 onwards. • Academies continue to buy back LA provided services via SLA maximising potential income streams. 	12	Priority 2: Protecting our most vulnerable people and families, enabling them to maximise their independence

No	Risk	Pre Controls 1- 25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0042	Maximising reputation opportunities; enhancing reputation as a leading authority, delivering services to others, attracting businesses, positive Public recognition.	12	<u>Martin Kimber</u> <ul style="list-style-type: none"> • Media handling policy and guidelines approved and communicated to managers, based on risk management principles • Positive article on Rotherham (March 2014), headed “Resilience in Rotherham” appeared in Municipal Journal following interview with Chief Executive • Budget consultation – strong engagement with local communities through development of e-consultation on 2014/2015 budget proposals • Rotherham CSE team win national award – Longest Journey Under Challenging Conditions – in recognition of continued improvements in service delivery • Two shortlisted entries in Local Government Chronicle Awards – Heart Town Partnership and HR / Shared Services • Digital engagement strategy under development – supporting greater engagement with communities, • Reputational risk presented by forthcoming publication of independent inquiry into historic CSE cases – communications strategy to be developed (to include national / regional / local and specialist media). 	9	All priorities

No	Risk	Pre Controls 1- 25	<u>Lead officer</u> Key Actions/Updates	Post Controls 1 - 25	Links to Corporate Priorities
0045	<p>Pandemics and communicable diseases.</p> <p>Risk now rests with local authority since transfer of Public Health Service.</p>	8	<p><u>John Radford</u></p> <ul style="list-style-type: none"> • Multi agency plans in place to manage risks of communicable disease and potential pandemics. • Flu and targeted vaccination programmes initiated • At risk groups identified and immunised 	6	<p>Priority 4: Helping people to improve their health and wellbeing and reducing inequalities within the borough</p>

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	Meeting:	Audit Committee
2.	Date:	23 rd April 2014
3.	Title:	Internal Audit Plan
4.	Directorate:	Environment & Development Services

5. Summary

This report refers to the draft Internal Audit Plan for 2014/15.

The report explains our approach to the development of the Plan in line with professional practice, as well as detailing the specific areas of activity we intend to cover.

6. Recommendations

The Audit Committee is asked:

- **To support the Internal Audit Plan for 2014/15.**

7. Proposals and Details

Internal Audit Plan

Attached at **Appendix A** is the draft 2014/15 Internal Audit Plan. There are details included in the Plan about how it is produced, the work proposed and audit resources.

In line with the new UK Public Sector Internal Audit Standards, the Plan has been drafted following a risk-based approach and is derived from a range of sources, including:-

- Review of the Council's risk registers.
- Review of revenue and capital budgets.
- Cumulative audit knowledge and experience.
- Review of key plans, reports and press coverage.
- Awareness of priorities identified by the Council's Strategic Directors and Service Directors.
- Knowledge of existing management and control environments, including information relating to any system changes.
- Professional judgement on the risk of fraud or error.

There are five types of work included in the plan:

- (i) Mandatory work – work required to enable the Chief Auditor to provide his opinion on the adequacy of the Council's control environment and its operation during the year. This work assists the Section 151 Officer (at Rotherham this is the Director of Financial Services) to fulfil his statutory responsibility to ensure the proper administration of the Council's financial affairs. This area of the Plan also contributes to the body of evidence supporting the Annual Governance Statement.
- (ii) Must-do work – including the Audit Commission's National Fraud Initiative and the certification of grant claims.
- (iii) An allowance for follow-up work in areas where significant weaknesses were identified during the last audit.
- (iv) An allocation for emerging risks and responsive work. This includes the investigation of fraud and other irregularities and the provision of advice to Council managers on internal control issues.
- (v) Risk related work.

The first four of these categories of work are prescribed either because of statutory requirements or other imperatives, outlined above. Limited scope is available to 'flex' the plan in these areas. The fifth type of work (risk related) is shaped to reflect Members' and Senior Managers' views of the areas in which Internal Audit is likely to be able to best add value, either by objectively reviewing arrangements in place or by helping to shape new arrangements or systems by offering advice on controls or procedures. The Audit Committee is asked to note in particular the areas proposed

for coverage under this 'Risk Related Work' heading in the Audit Plan (see 3.6 in the attached plan).

A summary of the areas to be covered in 2014/15, compared with 2013/14, is provided in the following table: -

Activity	Planned Days 2013/14	Planned Days 2014/15
Mandatory Work:		
Corporate Systems	265	185
Directorate Systems	500	436
ICT Audit	90	30
Anti Fraud & Corruption Work	85	35
Schools	147	88
sub-total	1087	774
Other 'Must do' work:		
National Fraud Initiative	40	20
Grant Certification	22	46
sub-total	62	66
Follow up work	30	30
Emerging Risks/Responsive/Commissioned work	303	265
Risk Related Work	225	220
Work for Outside Bodies (Wingfield Academy)	0	10
TOTAL	1707	1365

The main points and changes to note include:

- There is an overall planned reduction in Internal Audit activity. This has partly been necessary in order to achieve savings in line with Council-wide budget reductions, but also due to one member of staff leaving at the end of 2013 and another that will shortly commence maternity leave. This equates to more than 300 less available days against last year's Plan. This is perilously close to a level that could mean we are unable to carry out sufficient work to fulfil our statutory responsibility and we would need to look at alternative resources if there are any further, significant, unforeseen reductions. We will mitigate the position by carrying out a careful approach to risk-based planning and robust performance management of our resources.
- We have reduced coverage of Corporate Systems owing to the substantial coverage over many years, which has consistently shown these systems to be robust with good levels of internal control and consequently we believe these represent a lower risk.
- Similarly, our focus on ICT Audit has shifted towards the overall governance arrangements as opposed to examining specific systems in detail.
- Given the reduction in audit resources and the increased risk of fraud due to the economic climate, consideration of anti-fraud and corruption arrangements will be integral to every audit assignment. Consequently, it has been possible to reduce the number of planned days allocated to specific Anti Fraud and Corruption work within the Plan.
- Following on from last year, we have continued to refine our approach to the audit of schools to improve efficiency. This has allowed us to further reduce the

number of days required for school audit activity. It is also the case that a number of maintained schools have transferred to academy status and as such are no longer within the scope of our Internal Audit activity. However, in 2013/14 we secured work at Wingfield Academy and during 2014/15 we intend to continue to explore the possibility of providing assurance and advisory services to academies in order to retain our good relationships with schools and generate additional income for the Council.

- The plan includes an allocation of 30 days for follow-up work. Targeted follow-up is designed to maximise the benefit of the original audit work by ensuring actions have been implemented and appropriate outcomes achieved.
- A contingency has been made to provide for emerging risks and requests for advice / assistance that arise throughout the year. Client feedback tells us that our ability to respond promptly to unforeseen issues of this nature is highly valued. Due to the budget reductions it has been necessary to reduce the time allocated to this area.
- A proportion of the plan is directly linked to corporate and service risks and, in particular, how these risks are being managed.

8. Finance.

There are no direct financial implications. The Audit Plan can be delivered within existing resources.

9. Risks and Uncertainties.

The Director of Financial Services is required to make proper arrangements for financial administration. As part of these arrangements, Internal Audit is required to review all major financial systems and arrangements. Failure to do so will prevent the Director of Financial Services from meeting his and the Council's statutory responsibilities.

Failure to deliver a plan which complies with the new UK Public Sector Internal Audit Standards, and meets the expectations of the Council's External Auditors, KPMG, could lead to criticism from them. It could also lead to additional costs where External Audit cannot rely on Internal Audit's work and needs to carry out further work itself to gain assurance about the Council's financial arrangements and control environment.

10. Policy and Performance Agenda Implications.

Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation.

UK Public Sector Internal Audit Standards
Strategic Leadership Team

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033
Marc Bicknell, Chief Auditor, x23297



INTERNAL AUDIT

AUDIT PLAN 2014/15

**Colin Earl MBA (Dist) CPFA
Director of Audit and Asset Management**

**Marc Bicknell BA (Hons) ACA
Chief Auditor**

Internal Audit Plan 2014/15

1. Purpose.

1.1 This document provides details of the Internal Audit annual plan for 2014/15.

The Public Sector Internal Audit Standards defines Internal Audit as follows:-

“Internal audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

1.2 The overall opinion issued each year by Internal Audit on the adequacy and effectiveness of the control environment is used as a key source of assurance to support the Annual Governance Statement.

1.3 Internal Audit also has an important role to support the Director of Financial Services in discharging his statutory responsibilities, which include:-

- S151 Local Government Act 1972 – to ensure the proper administration of financial affairs.
- S114 Local Government Act 1988 – to ensure the Council’s expenditure is lawful.
- Accounts and Audit Regulations 2011 – to ensure that an adequate and effective internal audit of the Council’s accounting records and of its system of internal control is undertaken in accordance with the proper practices in relation to internal control.

1.4 A further underlying objective of Internal Audit is to assist Rotherham MBC in achieving its key priorities. Internal Audit contributes to these aims by helping to promote a suitably secure and robust internal control environment which allows a focus to be maintained on these key priorities.

2. Key Aims.

2.1 The key aims of Internal Audit are to:-

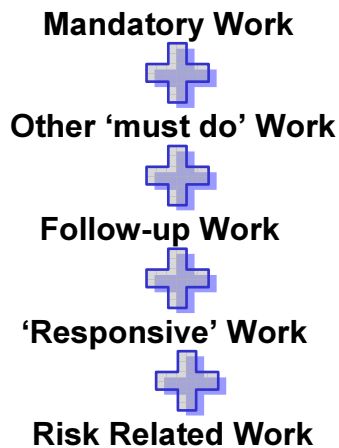
- Independently review, appraise and report on the adequacy of the systems of control throughout the Authority.
- Provide assurance to management that agreed policies are being implemented effectively.
- Provide assurance to management that adequate arrangements are in place so that internal controls mitigate risks to acceptable levels.
- Facilitate and encourage good practice in managing risks.
- Assist in promoting an environment and culture which will help deter and identify fraud.
- Be a source of advice on risk and control issues.
- Recommend improvements in control, performance and productivity as a contribution towards achieving corporate objectives.
- Work in partnership with the Council’s external auditor.

Internal Audit Plan 2014/15

3. Basis of the Plan.

The plan has been prepared in line with the requirements of the Public Sector Internal Audit Standards. These Standards expect that the plan will be risk based and informed by the organisation's risk management, performance management and other assurance processes.

A schedule of work included in the annual plan is set out in **Appendix 1**. There are five main strands to the plan:



3.1 Mandatory Work.

Mandatory work is carried out to enable the Chief Auditor to form his opinion on the adequacy and effectiveness of the Council's control environment. It also helps the Director of Financial Services to fulfil his responsibilities to ensure the proper administration of the Council's financial affairs. This area of the Plan includes: -

- Review of fundamental systems, including; ensuring there are adequate controls in place to administer the large flows of income and expenditure and to produce an accurate and complete Statement of Accounts. This internal audit work is relied on by external audit and helps to reduce external audit fees.
- Risk based reviews of the adequacy of the internal control frameworks surrounding the systems of financial administration within directorates.
- Programme of ICT Audit.
- Programme of Anti Fraud and Corruption activity.
- The audit of maintained schools.

Our approach to identifying areas to be covered by the audit plan has involved reviewing a range of information emanating from: -

- Analysis of income and expenditure, including revenue budgets and the capital programme.
- Cumulative audit knowledge and experience.
- Review of key plans, reports and media coverage.

Internal Audit Plan 2014/15

- Discussions with management. Internal Audit consulted Strategic and Service Directors during the audit planning process and, where appropriate, Internal Audit has incorporated any relevant priorities identified within the Plan.
- Existing management and control environments, including information relating to any systems changes.
- Assessment of the sensitivity of areas under consideration.
- Professional judgement on the risk of fraud or error.

3.2 Other 'Must Do' Work.

Other 'must do' work includes: -

- Participation in the Audit Commission's National Fraud Initiative.
- Certification of specific grant claims.

3.3 Follow-up Work

Targeted follow-up is designed to maximise the benefit of the original work, by ensuring agreed recommendations have been implemented and appropriate outcomes achieved. A specific provision has been made in the plan for follow-up work. This is in line with previous recommendations made by KPMG and reflects good practice.

3.4 Responsive Work.

A separate time allocation is made within the plan to deal with emerging risks and requests for advice or audit work which arise throughout the year. By definition this is difficult to plan for, and an allocation is made on the basis of our previous experience. The principal sources of responsive work arise from requests from management for support and advice, items reported under the Council's Confidential Reporting Code and issues identified during the conduct of audits. Internal Audit's ability to respond promptly to issues of this nature is highly valued and can often reveal some of the more significant items of concern.

3.5 Commissioned Work

This year we have made provision for specific pieces of work commissioned by the Council's Statutory Officers (i.e. Chief Executive, Director of Finance and Director of Legal & Democratic Services).

3.6 Risk Related Work

Internal Audit aims to provide assurance to management, elected members and other stakeholders that the Council's risks are being effectively identified and adequately mitigated.

We review the Council's Risk Registers to identify the key risks faced by the Council in delivering its objectives. Account is also taken as to whether there are any other assurance mechanisms that can be relied upon such as external

Internal Audit Plan 2014/15

inspection regimes e.g., OFSTED, Care Quality Commission etc. In the context of reduced resources, Internal Audit is mindful to avoid any possible duplication of effort in this regard.

Some areas to be covered under this part of the audit plan are shown below:

Priority	Rationale / Coverage
Public Buildings – Repairs & Maintenance.	We will review the contract management arrangements, focusing on the controls around the authorisation of payments.
Emergency Planning – Business Continuity.	We will examine the Council's policy and requirements for Business Continuity Planning and test Directorate / Service compliance.
Waste PFI.	We will evaluate the proposed system for controlling contract payments, including the process for verifying the volume of waste processed by the contractor.
A57 Improvements – Final Account.	Having already identified significant financial errors during the currency of this contract, we will examine the final account upon completion of the scheme to ensure accuracy of the final cost.
Direct Payments	Having previously identified control weaknesses, we will undertake follow up work on the process for verifying the appropriateness of expenditure made through the Direct Payments mechanism in both Adult Social Care and Children's Social Care.
Public Health – Primary Care Commissioned Services.	We will examine and test controls around billing and payment for externally contracted services for 'Pharmacy' and 'Sexual Health' services and also consider the risk of potential fraudulent claims.
Housing Repairs & Maintenance (Mears Group)	We will review the adequacy of the Council's contract monitoring arrangements with Mears Group (Morrisons), focusing on the processes for the compilation of the 'Cost Collection Workbook', in accordance with Open Book Accounting principles.
Housing Repairs & Maintenance (WDP)	We will conduct a similar review as above, for the Willmott Dixon Partnership.
Central Heating Replacement Programme	We have identified significant planned capital expenditure and will carry out probity testing to determine the accuracy and appropriateness of contractor payments.

4. Audit Resources.

At the start of the 2013/14 financial year, Internal Audit had 10.3 FTE staff. For 2014/15, resources have further reduced to 9.45 FTE.

Internal Audit Plan 2014/15

Should there be any further significant change in the resources available during the year, e.g. additional vacant posts, then the plan will be prioritised to ensure that the main risks are addressed. Where necessary, additional resources would be sought to ensure sufficient work can be completed to fulfil Internal Audit's objectives.

In preparing the Audit Plan the total number of 'available audit days' is calculated by making proper and adequate provision against the total working days available for known and estimated non-productive time, e.g. annual leave, sickness absence, training, management and administration, etc. (See Appendix 2).

5. Summary of 2014/15 Audit Plan.

Below is the proposed allocation of resources for 2014/15 compared to 2013/14 at a summary level.

Activity	Planned Days 2013/14	Planned Days 2014/15
Mandatory Work:		
Corporate Systems	265	185
Directorate Systems	500	436
ICT Audit	90	30
Anti Fraud & Corruption Work	85	35
Schools	147	88
sub-total	1087	774
Other 'Must do' Work:		
National Fraud Initiative	40	20
Grant Certification	22	46
sub-total	62	66
Follow up Work	30	30
Emerging Risks/Responsive/Commissioned work	303	265
Risk Related Work	225	220
Work for Outside Bodies (Wingfield Academy)	0	10
TOTAL	1707	1365

6. Emerging Risks and Revisions to the Plan

There is increasing pressure on Internal Audit sections to manage within shorter timeframes and to have flexible plans and resources to adapt to emerging risks. Once the Internal Audit Plan is approved, it is subject to constant and ongoing review throughout the year. This is to ensure that it reflects any new or changed priorities that may arise during the course of the year.

Progress against the plan is regularly monitored as part of Internal Audit's performance management arrangements and is reported periodically to Audit Committee. Any significant amendments to the plan will be reported to the Audit Committee.

7. The Benefits of Internal Audit.

Internal Audit:-

Internal Audit Plan 2014/15

- Is a powerful aid to management and corporately helps the Council to achieve its objectives and priorities
- Ensures there is a strong control and governance framework operating within the Council
- Deters, detects and reduces frauds
- Helps minimise external audit fees.

Internal Audit also considers the external auditor's plan to co-ordinate our work and avoid any unnecessary duplication of effort.

APPENDIX 1**DETAILED AUDIT PLAN 2014/15**

Audit Activity	Days
Corporate Systems	185
Housing Rents	
Debtors	
Creditors	
Payroll	
Housing and Council Tax Reductions	
Council Tax	
National Non Domestic Rates	
Directorate Systems	436
Children and Young People Services	
Children's Centres	
Children's Homes	
Private School Fund (Wath & Thrybergh)	
Fostering & Adoption Allowances	
Environment and Development Services	
Business Centres	
Design & Projects billing arrangements	
Waste PFI – Small Entities Audit	
Rother Valley Country Park	
Highways – Final Accounts	
Hellaby Depot	
Schools – Final Accounts	
Libraries Services	
Customer Service Centres	
Markets	
Riverside House Café	
Thrybergh Country Park	
Bus Service Operators Grant	
Neighbourhoods and Adult Services	
Licensing Income	
Residential Homes	
Financial Assessments	
Learning Disabilities Residential Care/Intermediate Care	
Resources	
Members Expenses (follow-up)	
Anti Fraud and Corruption	35
Audit Commission Annual Fraud Return	
Local Data Matching	

Audit Activity	Days
ICT Audit	30
ICT Governance	
Schools	88
Primary Schools	
Secondary Schools	
Special Schools	
Pupil Referral Unit	
Other 'Must Do' Work	66
National Fraud Initiative	
Certification of Grant Claims	
Follow Up Work	30
Emerging Risks/Responsive/Commissioned work	265
Risk Related Work	220
Public Buildings - Repairs & Maintenance	
Emergency Planning – Business Continuity arrangements	
Waste PFI	
A57 Improvements – Final Account	
Direct Payments	
Public Health – Primary Care Commissioned Services	
Housing Repairs & Maintenance (Mears)	
Housing Repairs & Maintenance (WDP)	
Central Heating Replacement Programme	
Work for Outside Bodies	
Wingfield Academy	10
TOTAL DAYS	1365

APPENDIX 2**CALCULATION OF AUDIT RESOURCES 2014/15**

Gross days available	13/14	14/15
Internal Audit Establishment	2614	2432
Less – Maternity Leave	0	178
Gross days	2614	2254
Less: -		
Annual Leave, Statutory Leave & Concessionary Days	364	335
Elections	0	4
Sickness	73	63
Service Development	30	50
Professional Training and CPD	122	100
Management and Supervision	193	180
Administration	60	65
	-842	-797
Gross audit days available	1772	1457
Less – work b/fwd from previous year	65	92
Net Audit Days Available	1707	1365

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1. Meeting:	Audit Committee
2. Date:	23 rd April 2014
3. Title:	Audit Committee Annual Report 2013 - 2014
4. Directorate:	Environment & Development Services

5. Summary

This report refers to and contains, at Appendix A, a draft Audit Committee Annual Report 2013/14. The Annual Report shows the Audit Committee has successfully fulfilled its terms of reference and has helped to improve the Council's governance arrangements and its overall control environment.

6. Recommendations

The Audit Committee is asked to agree the attached annual report for the year 2013/14.

7. Proposals and Details

The Audit Committee's Terms of Reference and best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees" require the Audit Committee to complete an annual report.

A copy of a draft Annual Report 2013/14 is attached at **Appendix A**. It shows key information relating to the Committee, its achievements during the year and priority areas for 2014/15.

The Audit Committee has previously been commended by the external auditor and the Annual Report shows that it has successfully fulfilled its terms of reference and has improved the Council's governance arrangements and its control environment.

8. Finance

There are no direct financial implications.

9. Risks and Uncertainties

The preparation of an Annual Report is in line with best practice.

10. Policy and Performance Agenda Implications

Good Governance is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation

A Toolkit for Local Authority Audit Committees, CIPFA, IPF, 2006.

Contact Names:

Colin Earl, Director of Audit and Asset Management, x22033

Marc Bicknell, Chief Auditor, x23297.

Appendix A: Audit Committee Annual Report 2013/14

AUDIT COMMITTEE

ANNUAL REPORT 2013/14

Councillor Alex Sangster, Chair
Councillor Barry Kaye, Vice-Chair

FOREWORD BY THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee's 2013/14 Annual Report. The report shows the contribution the Audit Committee has made to the achievement of good governance and sound internal control within the Council.

The Audit Committee oversees the management of risks within the Council and the operation and effectiveness of the Council's internal control arrangements. It fulfils this role by considering and approving reports from officers responsible for financial management and governance within the Council and from the Council's external auditors. Where relevant, the Committee also makes recommendations for action to address any deficiencies identified by or reported to the Audit Committee.

The Audit Committee has taken an interest **various emerging risks and priorities, including the impact of welfare reforms, housing rents changes and further developments in respect of anti-fraud and corruption initiatives, where the Council continues to comply with best practice.**

We have continued to work with colleagues across Rotherham, including audit committee members from the Health, Police, Fire and Probation Services. This is enabling us to look at cross-cutting areas of development and risk, including the implications of major change programmes in the NHS and the Police Service, and the Localism Act.

The Council is successfully responding to the Government's budget challenges, but as this become increasingly more challenging over the next few years, we need to be alert as an Audit Committee to the inherent increase in the risks this will create. We will work with officers to ensure the risks continue to be monitored and actions put in place to mitigate the risks to an acceptable level. This will continue to be a key priority for us in 2014/15. We will also want to ensure the Council maintains the high standards of financial management and control it has achieved.



Finally, I would like to thank my colleague Members sitting on the Audit Committee during the year for the work they have done to help the Committee to fulfil its terms of reference effectively. I thank all officers and Members who have responded positively to the Audit Committee over the year, when questions have been asked and information requested.

***Councillor Alex Sangster
Chair, Audit Committee 2013/14***

AUDIT COMMITTEE: ANNUAL REPORT 2013/14

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INTRODUCTION.

This Annual report is produced in accordance with latest best practice*¹ and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has helped the Council to improve its governance and control environments.

SOME KEY INFORMATION

Audit Committee Membership

The Audit Committee has five Members:

Councillor Alex Sangster - Chair
 Councillor Barry Kaye - Vice-Chair
 Councillor Terry Sharman
 Councillor Kath Sims
 Councillor John Gilding

There is strong officer support to the Audit Committee, through the regular attendance of the Director of Audit and Asset Management, the Director of Finance and the Director of Legal and Democratic Services. Other officers attend as and when appropriate, including the Chief Executive.

Key features of the Audit Committee and its operation.

Comparison against best practice illustrates the Audit Committee's strengths:

Best Practice	Expectation	Met?	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council
Number of Members	3-5	√	The Committee has 5 Members
Number of meetings	Aligned to business needs	√	The frequency of meetings enables all business to be considered in a timely manner
Co-option	To be considered relative to skills	√	The Committee has a sufficient mix of skills and experience to fulfil its responsibilities effectively.
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the model Terms of Reference
Skills and training	Members have sufficient skills for the job	√	Training is provided to increase Members' skills, through the Members' PDR process.

*¹ Best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees"

COMMITTEE ACTIVITY 2013/14

Terms of Reference.

The Audit Committee's terms of reference cover six main areas. The Committee's work and outcomes in each of its areas of responsibility are summarised in the following sub-sections.

Internal Audit

The Audit Committee:

- Approved the Internal Audit Strategy and Internal Audit Plan.
- Considered periodic progress reports produced by the Chief Auditor, highlighting Internal Audit work completed, Internal Audit performance against key indicators, management's response to recommendations and any significant issues arising during the period.
- Considered the Internal Audit Annual Report and opinion of the Chief Auditor on the Council's control environment.
- Ensured Internal and External Audit plans were complementary and provided optimum use of the total audit resource.
- Received and considered information on the performance of the Internal Audit team.

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made.

External Audit

The Audit Committee:

- Considered progress against the Plan as presented by the external auditor.
- Received and considered all external audit and inspection reports issued in the year and considered management's response to them, ensuring robust and thorough responses.
- Reviewed the Council's progress on all external audit and inspection recommendations on a regular basis and asked managers to explain progress, thereby holding them to account.

We continue to provide support to external audit to ensure management is responsive to recommendations made.

Risk Management

The Audit Committee:

- Received and considered reports on the corporate risk register.
- Enquired about specific risks and the application of risk management arrangements within directorates.
- Received and considered the insurance and risk management performance annual review.

Internal Control and Governance

The Audit Committee:

- Agreed the Council's Annual Governance Statement and action plans to improve identified weaknesses.
- Approved the production of the Council's Annual Fraud Report.

The Annual Governance Statement (AGS) is a key document which summarises the Council's governance arrangements and the effectiveness of the arrangements during the year. The Audit Committee received a draft AGS prior to its inclusion in the Council's Statement of Accounts. This was intended to ensure the Audit Committee could more thoroughly review the robustness of the process for producing the AGS and the content of it. The Audit Committee was satisfied that:

- There was a comprehensive assurance framework in place to safeguard the Council's resources.
- The framework was reliable and applied during the course of the year, including financial reporting, internal and external audit and the Audit Committee's own arrangements.

Statement of Accounts

The Audit Committee:

- Agreed the Council's accounting policies.
- Agreed the annual statutory statement of accounts.
- Received and considered the external auditor's report on the accounts, and ensured that the Council responded to the auditor's comments.

The Audit Committee continued to receive regular reports from the Chief Accountant on the Council's Treasury Management arrangements in the context of the economic downturn and also received the Prudential Indicators and Treasury Management and Investment Strategy 2014/15 to 2016/17.

Specific Issues

The Audit Committee also considered the following specific issues which arose in the period:

- Received and considered a report which addressed specific issues asked by Audit Committee in relation to the impact of welfare reform on the Housing Revenue Account, and in particular, rent arrears.
- Considered a report highlighting the key issues raised at a KPMG Audit Committee Institute event focusing on current local government issues. There are just two areas where additional information could be brought forward to the Audit Committee, to help it to get a fuller understanding of issues relevant to its Terms of Reference. These are summaries of appropriate Public Interest Reports should be presented to the Audit Committee along with confirmation of arrangements in place at the Council in the areas covered by the reports. Also the reports on whistleblowing cases could be forwarded to the Audit Committee where they involve issues relating to the Committee's Terms of Reference.

The report provided assurance to the Audit Committee about arrangements in place at Rotherham Council in areas highlighted by KPMG. Encouragingly, the report showed that the Council has substantially implemented arrangements in areas covered by the KPMG report.

- Received a report which detailed a review of the Council's Financial Regulations and guidance notes. Financial Regulations are periodically reviewed to ensure they are fit for purpose and meet current best practice. As has been the case in the past, Cabinet and Scrutiny will be consulted on proposals after any comments by the Audit Committee, and any ultimate changes will be adopted as part of the Council's constitution.

A full list of the reports considered by the Audit Committee can be found in **Appendix 1**.

OTHER ACTIVITIES

We have had three meetings during the year with colleagues across Rotherham, including audit committee members from the Health, Police, Fire and Probation Services.

By looking collectively at governance related issues, we are able to identify cross-cutting areas of development and risk that could affect all of the services. This year we have considered, amongst other things, the implications of major change programmes in the NHS and the Police Service, and the Localism Act.

OUTCOMES

The Audit Committee aims to focus on adding value through its activity. By concentrating on outcomes the Committee can identify the benefits of its work. Once again, this year, the particular areas of work covered by the Audit Committee were:

- Oversaw work on the 2012/13 Statement of Accounts which again received a clean opinion from the Council's external auditor, KPMG.
- Noted the Council's overall good arrangements for managing the risk of fraud and supported the actions being taken to update the relevant parts of the Council's arrangements for managing the risk of fraud. This included the production of the Annual Fraud Report which reported that only a very low level of fraud was identified confirming the robustness of the arrangements and the honesty and integrity of the overwhelming majority of staff employed by the Council.
- Continued to meet with colleagues and reviewed Rotherham wide governance issues through the '*Rotherham Audit Committee*'.
- Ensured there was appropriate focus on the risks associated with substantial budget reductions.
- Encouraged and presided over a strengthening control environment, through receiving reports on the Corporate Risk Register and responses to external audit recommendations.

Individual Members, and the Audit Committee collectively, continued to develop and learn about our roles, and deliver these roles effectively.

PLANS FOR 2014/15

We want to continue to develop and build on our current status. For 2014/15 we will:

- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice.
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations.
- Ensure we maintain and further improve our standards in relation to the production of statement of accounts.
- Continue to help the Council to manage the risk of fraud and corruption.
- Continue to work with colleagues in other statutory services to collectively identify and manage cross-cutting risks arising from major developments.

During 2013/14 we have continued the progress we have made in previous years, and going forward we look to continue to be a champion of good governance at both a local and sub-regional level.

Councillors Alex Sangster (Chair) and Barry Kaye (Vice-Chair)
Rotherham MBC Audit Committee
April 2014

AUDIT COMMITTEE ACTIVITY – 2013/14

Function / Issue	Apr 2013	June 2013	July 2013	Sept 2013	Oct 2013	Dec 2013	Feb 2014
Internal Audit							
Internal Audit Strategy and Audit Plan 2013/14	✓						
Internal Audit Annual Report 201/13		✓					
Internal Audit Plan Progress Report				✓			✓
Annual Fraud Report				✓			
Anti Fraud and Corruption Action Plan Update		✓					
External Audit							
Audit and Inspection Recommendations Update Report				✓			
Interim External Audit Report	✓						
Grants Audit Report							✓
Annual Audit Letter 2012/13 Including Audit Fees					✓		

AUDIT COMMITTEE ACTIVITY – 2013/14

Function / Issue	Apr 2013	June 2013	July 2013	Sept 2013	Oct 2013	Dec 2013	Feb 2014
Risk Management							
Corporate Risk Register			✓			✓	
Annual Review – Insurance and Risk Management Performance						✓	
Governance							
Draft Annual Governance Statement 2012/13		✓					
Accountancy and Treasury Services							
Unaudited 2012/13 Statement of Accounts			✓				
Audited 2012/13 Statement of Accounts and External Auditors' Report (ISA 260)				✓			
Annual Treasury Management Report and Actual Prudential Indicators Monitoring Report			✓				
Mid-Year Treasury Management and Prudential Indicators Monitoring Report					✓		

AUDIT COMMITTEE ACTIVITY – 2013/14

Function / Issue	Apr 2013	June 2013	July 2013	Sept 2013	Oct 2013	Dec 2013	Feb 2014
Prudential Indicators and Treasury Management and Investment Strategy 2014/15 to 2016/17							✓
Audit Committee Working Arrangements							
Audit Committee Annual Report 2012/13	✓						
Review of Key Developments Facing the Council							
Welfare Reform – Impact on Rotherham Housing Rents	✓						
Assessment of Current L.Govt Risks – KPMG Audit Committee						✓	
Revised Financial Regulations					✓		

ROTHERHAM BOROUGH COUNCIL - REPORT TO AUDIT COMMITTEE
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1.	Meeting:	Audit Committee
2.	Date:	23 April 2014
3.	Title:	Internal Audit Annual Report 2013/14
4.	Directorate:	Environment and Development Services

5. Summary.

This report provides information on the role of Internal Audit, the work undertaken by the Service during the 2013/14 financial year and the Chief Auditor's overall opinion on the Council's control environment. Based upon the work undertaken, I am able to confirm that the Council's control environment for 2013/14 was adequate and operated satisfactorily during the year.

The report also refers to the formal review of the effectiveness of Internal Audit, required to be completed in accordance with the Accounts and Audit Regulations 2011. Internal Audit has maintained high standards and met its performance targets during the year.

6. Recommendations.

The Audit Committee is asked:

- **To note the Internal Audit Annual Report for 2013/14, including confirmation that the Council's control environment was adequate and operated satisfactorily during the year**
- **To confirm there was an effective internal audit in place for 2013/14.**

7. Proposals and Details.

7.1 Internal Audit Annual Report.

It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an annual report is produced by the *'Head of Internal Audit'* on the work undertaken by Internal Audit during the year. The report for 2013/14 is attached at **Appendix 1**.

The report shows that Internal Audit's Annual Plan ensured adequate coverage of all mandatory areas and reflected the main risks facing the Council, by being compiled after taking into account:

- Review of Council's risk registers;
- Review of revenue and capital budgets;
- Cumulative audit knowledge and experience of previous work undertaken;
- Review of key plans, reports and press coverage;
- Awareness of priorities identified by the Council's Strategic Directors and Service Directors;
- Knowledge of existing management and control environments, including information relating to any system changes;
- Professional judgement on the risk of fraud or error.

The report shows that audit activity was completed in approximately 84% of the planned auditable areas, including all critical work on fundamental financial systems. Detailed work completed by the team has been reported to the Audit Committee during the year and so details are not repeated here. The report provides a summary of the work done and a flavour of the main issues arising during the year.

The Chief Auditor is able to confirm that the coverage undertaken of the Council's activity by Internal Audit in the past year was sufficient to be able to state, in his opinion, that the Council's control environment for 2013/14 was adequate and operated satisfactorily during the year. This assessment also takes account of the work of the External Auditor and the result of any inspections carried out.

7.2 Review of the Effectiveness of Internal Audit.

The Accounts and Audit Regulations 2011 include a requirement for local authorities to:

"... undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control" Reg 6(3), and:

The findings of the review referred to in paragraph (3) must be considered, as part of the consideration of the system of internal control..." Reg 6(4).

For the 2013/14 financial year the review of the effectiveness of the system of Internal Audit has been informed mainly by:

- The Internal Audit Annual Report;

- Customer satisfaction;
- Comments made by KPMG following its review of Internal Audit work and the Service's compliance with professional standards.

The main features from these are summarised below:

Internal Audit Annual Report

The Annual Report is referred to above and is attached at **Appendix 1**.

The report highlights that Internal Audit has managed to maintain high standards and has met its targets during the year, while making savings required by the Council to help meet its budget challenge.

Customer Satisfaction

Following the conclusion of each audit assignment, a client satisfaction questionnaire is sent to the senior manager responsible for the service area that has been audited. It is pleasing to note that in 2013/14, 100% of 'auditees' returning client satisfaction questionnaires rated the service provided by Internal Audit as good or excellent.

External Audit Review of Internal Audit

During 2013/14, KPMG reviewed Internal Audit's work to determine whether it could take account of our audit of the Council's fundamental financial systems to support its audit of the Council's statutory Statement of Accounts.

KPMG has stated:

"We have gained an understanding of Internal Audit and the work of Internal Audit. We are satisfied we can rely on Internal Audit as a function and the work of Internal Audit, where required for the audit of the financial statements."

"Further to this we have reviewed the following work: -

- *Debtor Control Testing*
- *Payroll Control Testing*
- *Creditor Control Testing*
- *NNDR Control Testing*
- *Housing and Council Tax Benefit Control Testing;*

and are satisfied by the work and used it accordingly in our audit approach in the audit of the financial statements of 2013/14."

Conclusion

It can be concluded that:

- Internal Audit has effectively planned its work and has completed sufficient work to be able to provide an opinion to the Audit Committee on the Council's internal control environment;
- Based on the planning and completion of audit work described in the Annual Report, customer feedback and review by external audit, it can be confirmed that there has been an effective internal audit during 2013/14.

The Audit Committee is asked to acknowledge the completion of this formal review and its conclusions.

8. Finance.

There are no direct financial implications arising from this report. The budget for the Internal Audit function is contained within the budget for Environment & Development Services.

9. Risks and Uncertainties.

Failure to deliver an effective internal audit would significantly weaken the Council's internal control arrangements and increase the risk of erroneous and/or irregular activities.

10. Policy and Performance Agenda Implications.

Internal Audit is an integral part of the Council's Governance Framework, which is wholly related to the achievement of the Council's objectives.

11. Background Papers and Consultation.

Public Sector Internal Audit Standards
Accounts and Audit Regulations, 2011

Contact Names:

Colin Earl, Director of Audit and Asset Management, ext. 22033

Marc Bicknell, Chief Auditor, ext. 23297

Appendix 1: Internal Audit Annual Report 2013/14

Environment and Development Services Directorate**Internal Audit Annual Report 2013/14****1. Purpose of the Report.**

- 1.1 The purpose of the report is to present the Chief Auditor's overall opinion on the Council's control environment, which supports the Council's Annual Governance Statement (AGS).
- 1.2 The report also fulfils the requirements of the Accounts and Audit (England) Regulations, 2011, for the Council to undertake an annual review of the effectiveness of Internal Audit.

2. Introduction.

- 2.1 The report has been prepared by the Council's Chief Auditor. The aim of the report is to provide information on the role of Internal Audit and the work undertaken during the past year.
- 2.2 It is not the intention of this report to attempt to give detailed information on each of the audits that have been undertaken during the year. Instead, the report provides a summary of the work done and a flavour of the main issues that have arisen.

3. Legislation Surrounding Internal Audit.

- 3.1 Internal Audit is a statutory requirement for all local authorities that emanates from Section 151 of the Local Government Act 1972 and more recently the Accounts and Audit (England) Regulations 2011.
- 3.2 Section 151 of the Local Government Act 1972 requires that every principal local authority shall put in place arrangements for the proper administration of its financial affairs and that an officer be designated responsible for this task. To comply with these requirements the Council, in common with most other authorities, has assigned this statutory responsibility to the Chief Finance Officer who, at Rotherham, is the Director of Financial Services.
- 3.3 The Accounts and Audit (England) Regulations 2011 require that a relevant body must undertake an adequate and effective internal audit of its accounting records and of its system of internal control, in accordance with the proper practices in relation to internal control. Further, a principal local authority must, at least once in each year, conduct a review of the effectiveness of its internal audit function. At Rotherham, the Director of Audit and Asset Management has responsibility for ensuring the provision of an effective internal audit service. The Chief Auditor is responsible for the operational management of the service.
- 3.4 It is a requirement of the Public Sector Internal Audit Standards (PSIAS) that an annual report is produced by the '*Head of Internal Audit*' on the work undertaken by Internal Audit during the year. Rotherham's annual report and opinion on the system of internal control is produced by the Chief Auditor.

3.5 Internal Audit is defined by the PSIAS as:-

“an independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes”.

3.6 In order to fulfil this requirement Internal Audit must have unrestricted coverage and access to all employees, records and assets of the Council. Additionally, it must have unrestricted access to, and the freedom to report to the Chief Executive, the Chief Finance Officer, the Monitoring Officer and Members, particularly the Audit Committee. These operational requirements are included in the Terms of Reference for Internal Audit.

4. Review of the Service.

4.1 External Audit.

During 2013/14, KPMG reviewed Internal Audit’s work to determine whether it could take account of our audit of the Council’s fundamental financial systems to support its audit of the Council’s statutory Statement of Accounts.

KPMG has stated:

“We have gained an understanding of Internal Audit and the work of Internal Audit. We are satisfied we can rely on Internal Audit as a function and the work of Internal Audit, where required for the audit of the financial statements.”

“Further to this we have reviewed the following work: -

- *Debtor Control Testing*
- *Payroll Control Testing*
- *Creditor Control Testing*
- *NNDR Control Testing*
- *Housing and Council Tax Benefit Control Testing*

And are satisfied by the work and used it accordingly in our audit approach in the audit of the financial statements of 2013/14.”

4.2 Compliance with PSIAS

The *Head of Internal Audit** is required to report on Internal Audit’s compliance with the Public Sector Internal Audit Standards (PSIAS). Basic requirements for this are as follows:

- The *Head of Internal Audit** periodically reviews the internal audit charter and strategy and presents it to senior management and the Audit Committee for approval.
- The Internal Audit service is organisationally independent.
- There is a Quality Assurance and Improvement Programme (QAIP), the results of which are reported to senior management and the Audit Committee.

- There is an external assessment of the service conducted every five years.
- All instances of non-compliance with the PSIAS are reported to the Audit Committee.
- The non-conformances are not considered to be significant deviations from the PSIAS and therefore do not require disclosure in the Council's Annual Governance Statement.

The *Head of Internal Audit** has undertaken an annual self-assessment as required by the standards. He has concluded that Internal Audit is compliant with the standards with the exception of the following items:-

- (i) The Standards require the Audit Committee to approve decisions relating to the appointment and removal of the *Head of Internal Audit**. This does not currently reflect local government practice and is not regarded to be a material non-compliance issue and so no change is proposed.
- (ii) The Standards require the Chief Executive and Audit Committee Chair to be involved in the PDR or appraisal of the *Head of Internal Audit**. Current arrangements do not reflect this requirement and will be amended accordingly.

It should be noted that an external assessment has not yet been undertaken as this only the first year that the standards have been in force and an external assessment is only required within a five year period.

**The role of 'Head of Internal Audit' at Rotherham is fulfilled by the Director of Audit & Asset Management.*

4.3 Internal Audit Resources.

In order to meet its service objectives Internal Audit has an agreed budget as shown below, along with the 2013/14 service outturn costs:

2013/14 Outturn		2014/15 Budget
£000s		£000s
498	Employees	422
12	Other Expenditure	14
<u>(67)</u>	Income	<u>(53)</u>
<u>443</u>	Net Total	<u>383</u>

During the year, an Auditor left the team to pursue their career elsewhere and the Team's structure was reduced by 0.67 FTE. In addition a Senior Auditor moved from full time working to term time plus two weeks, further reducing the structure by 0.08FTE. These reductions have helped contribute to achieving further budget savings for the Council.

Internal Audit now has an establishment of 9.45 FTE staff and remains the lowest cost base of any Local Authority Internal Audit function in South Yorkshire and West Yorkshire.

Notwithstanding this, by using a risk-based approach and through careful management of its resources, Internal Audit has been able to deliver a satisfactory programme of work and meet its performance targets.

The Chief Auditor is grateful for the effort and commitment shown by the Internal Audit team to achieve a positive outcome in this context.

4.4 Performance Indicators.

A number of performance measures are maintained to review and improve the performance of the Service. Details of the last three years' actual performance and targets for 2014/15 are summarised below:-

Performance Indicator	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Target
Draft reports issued within 15 days of field work completion	94%	93%	98%	95%
% 3 star Recommendations agreed	100%	100%	100%	100%
Chargeable Time / Gross Time	62%	65%	64%	63%
Audits Completed Within Planned Time	94%	93%	93%	95%
Percentage of Audit Plan Completed	84%	78%	84%	85%
Cost per Chargeable Day	£271	£275	£268	£265
Client Satisfaction Survey	100%	100%	100%	100%

Overall our performance against the targets agreed with Audit Committee is excellent. Client satisfaction continues to be excellent and our performance on chargeable time and the percentage of the Audit Plan completed are both on target. Consequently, we have delivered a programme of work sufficient to support the Chief Auditor's opinion on the Council's control environment and to meet the requirements of KPMG.

5. Planning Processes.

5.1 The 2013/14 plan was derived from the following sources:-

- Review of Council's risk registers;
- Review of revenue and capital budgets;
- Cumulative audit knowledge and experience of previous work undertaken;
- Review of Council plans, reports and press coverage;
- Awareness of priorities identified by the Council's Strategic Directors, Service Directors and Audit Committee members;
- Knowledge of existing management and control environments, including information relating to any system changes;
- Professional judgement as to the risk of fraud or error.

5.2 I am pleased to be able to report that I am once again satisfied that the coverage undertaken of the Council’s activity by Internal Audit in the past year has been sufficient to be able to give an overall opinion on the Council’s internal control environment.

6. Reporting Arrangements.

6.1 All audit assignments are subject to formal reporting to management in an appropriate format; this could take the form of a summary memorandum or a formal report. Draft reports are sent to the managers responsible for the area under review to obtain their agreement as to the factual accuracy of findings and the viability of recommendations. After agreement, a formal implementation plan containing management’s agreed actions and comments is issued to the Service Director of the service under review. Internal Audit has arrangements in place to obtain assurance that all recommendations agreed with management are subsequently implemented. Where any issue of ‘fundamental concern’ is identified our follow up procedures provide for us to actively revisit that issue to ensure the risk has been adequately mitigated.

6.2 Reports containing significant weaknesses or sensitive issues are copied to the Chief Executive, Director of Financial Services or Director of Legal and Democratic Services as deemed appropriate, dependent on the nature of the issues involved.

7. Summary of Findings from Audit Reviews.

7.1 Internal Audit Opinion

Internal Audit provides an ‘opinion’ on the control environment for all systems or services which are subject to audit review. An ‘inadequate’ opinion is given where one or more concerns of a ‘fundamental’ nature are identified in the area under examination. Where this occurs the issue is drawn to the attention of the Risk and Governance Manager for consideration for inclusion in the Council’s Annual Governance Statement. A full list of Planned Audits carried out during 2013/14 can be found at **Appendix A**.

7.2 Fundamental Financial Systems.

As part of the Annual Audit Plan, Internal Audit undertakes a programme of reviews of the fundamental financial systems of the Council. The work in these areas is examined by the Council’s External Auditors, who take account of this work to assist their own audit of the Council’s statutory Statement of Accounts. This helps to reduce the audit fees paid by the Council to KPMG.

All fundamental systems were found to be sound and operating effectively, as shown in the table below:-

System	Conclusion / Findings
Council Tax	The overall control environment was found to be adequate and operating satisfactorily. No significant weaknesses were identified and only one minor recommendation was made.

System	Conclusion / Findings
NNDR	The overall control environment was found to be adequate and operating satisfactorily. No significant weaknesses were identified and only one minor recommendation was made.
Creditor Payments	The overall control environment was found to be adequate and operating satisfactorily. A recommendation was repeated from the previous year (2012/13) to strengthen arrangements concerning retention of evidence of the performance of control account reconciliations.
Housing and Council Tax Benefits	The overall control environment was found to be adequate and operating satisfactorily. Recommendations have been made to strengthen arrangements for the production and review of the monthly reconciliations.
Payroll	The overall control environment was found to be adequate and operating satisfactorily. Recommendations have been made to strengthen arrangements for the processing of voluntary deductions, the examination of exception reports and the documents expected to be retained on employee personal files.
Housing Rents	The overall control environment was found to be adequate and operating satisfactorily. A number of recommendations that were made last year (2012/13) namely; review controls around access to systems, verify qualifying years for Right to Buy discount calculations and ensure prompt clearance of the Housing Rents suspense account, have had to be repeated due to the delayed introduction of the new IHMS system. New recommendations were made regarding reporting arrears performance and Former Tenants Arrears, which could suggest issues with them being reported as closed by the Council's bailiffs.
Sundry Debtors	The overall control environment was found to be adequate and operating satisfactorily. No significant weaknesses were identified.

7.3 Other Planned Audits with Significant Issues Arising.

7.3.1 NAS - Repairs & Maintenance Contract

During the audit we identified ineligible costs which the contractor has agreed to withdraw. The outcome of this will be significant savings to the Council. We identified a number of fundamental weaknesses in the contract monitoring arrangements and have made recommendations to address these.

7.3.2 EDS – Major Highway Improvement Scheme

During the audit we identified weaknesses in the arrangements for checking the contractor's applications for payment which had led to significant overpayments. The majority of these were later identified and corrected by the contractor; however, we have concluded the overall control environment to be inadequate and are awaiting management's response to our recommendations. A follow-up review is planned for 2014/15 upon completion of the scheme and submission of the contractor's final account.

7.3.3 CYPS – Budget setting & monitoring at a secondary school

During the audit of a secondary school we identified a number of fundamental control weaknesses, including inadequate budgetary control arrangements that had led to a failure to identify and regularly report to its Governors a significant budget surplus. We have made a number of recommendations to address these weaknesses.

7.3.4 CYPS – Schools Catering Service

During the review we conducted a series of visits to school kitchens to evaluate the income cashing up/paying-in and reconciliation procedures in connection with the operation of a dinner money collection system. We considered the processes to be generally weak and in need of strengthening, together with an observed general absence of provision of documentary evidence and separation of duties. This has been reported to CYPS management.

7.3.5 NAS – Rotherham Furnished Solutions (RFS)

During the audit we identified fundamental weaknesses in stock control placing the stock at RFS at significant risk of manipulation for fraudulent purposes. There is no monitoring and reconciliation of paid invoices (in excess of £1m in 2013/14), to ensure that all expenditure is genuine and in line with expectations. We have concluded the overall control environment to be inadequate and have made a number of recommendations to address the issues. A follow-up review is planned for 2014/15 upon implementation of the recommendations.

7.3.6 EDS – Blue Badge Scheme

The NFI 2012/13 exercise produced a report showing matches of parking permit holders (issued to Rotherham residents) to deceased records. On investigation we found no instances of fraud, however, applications and supporting evidence submitted in paper form were being retained for 3 months only. We recommended that such documentation is retained for at least the lifetime of the badge, namely 3 years. Management has actioned this recommendation.

7.3.7 EDS – Treatment of VAT

During an audit of the Parks and Green Spaces Service we found that VAT had been incorrectly accounted for on sales of food at catering facilities, resulting in an underpayment of VAT. Corrections have since been made to the satisfaction of HM Revenues & Customs (HMRC). A further significant VAT error was noted during an audit of the Local Land Charges function and corrections have been made to the satisfaction of HMRC. In both instances there will be no penalty charge by HMRC on these errors. As a result of these errors, a Directorate wide review of VAT accounting is being undertaken by EDS management and Financial Services.

7.4 Responsive Work.

Approximately 11% of Internal Audit time was used to address issues which arose during the year that had not been provided for in the original Audit Plan. This compares favourably to 21% of Audit resources in 2012/13 and suggests

that more targeted risk-based audit planning has led to less responsive work in 2013/14. This year's work can be sub-divided into two categories: -

7.4.1 Investigative work

This is where some form of non-compliance with Council policies and procedures (Standing Orders/Financial Regulations/Codes of Conduct etc), including potential fraud or other irregularity, is suspected. Investigations of this type are, by their nature, time consuming because of the need for attention to detail and accurate recording on the understanding that the evidence could be used in formal disciplinary hearings or by the Police in any subsequent prosecutions.

7.4.2 Requests for assistance/advice

There are a number of factors affecting the level of requests for assistance, including: -

- Greater awareness within the Council of the need to ensure that systems and procedures are operating in accordance with Council policies and regulations.
- Modernising of systems inevitably leads to change and managers across the Council recognise the value of obtaining Internal Audit advice when implementing change.
- The policy of Internal Audit is to respond positively to requests for advice/assistance on the basis that this should help to ensure that systems and procedures are operating in accordance with Council policies and regulations. It is felt this policy provides an "added value" function corporately to Council services.
- Previous advice and assistance provided by Internal Audit has been appreciated by clients and, therefore, encourages involvement and discussion on any future issues that emerge.

7.4.3 Previous benchmarking exercises have suggested that the Council has a strong overall control environment and as a result appears to have a lower level of reported irregularities than other authorities of a similar size / range of services. Nonetheless, various issues arose during the year that required audit attention and details of the work carried out and outcomes have been provided in updates given to the Audit Committee during the year. Examples of the type of reviews carried out include: -

- Investigation into allegations of favouritism and improper award of a contract.

Following an anonymous allegation we investigated the procurement and award process of a contract. We found no evidence to support the allegation of '*financial inducement*' or '*corrupt practices*' having taken place. However, we did identify a number of significant failures to apply Contract Standing Orders and have made a number of recommendations to strengthen controls.

- Investigation into an over spend on a civil engineering contract.

We investigated a significant capital overspend on a contract that involved emergency repair works to one of the Council's reservoirs. We found a number of budgetary control and contract management weaknesses and a subsequent failure to comply with the Council's

Financial Regulations and Contract Standing Orders. We also identified overpayments (of £20K incl. VAT), which have since been repaid to the Authority by the contractor. A report has been issued setting out how controls could be strengthened to avoid a recurrence and the recommendations are now being implemented.

- Investigation into allegations of financial issues at a secondary school, raised by a whistle blower.

Internal Audit investigated the veracity of financial issues at a secondary school that were raised by a whistle-blower under the Confidential Reporting Code. The audit also examined whether there were any other issues of significance that were not included in the confidential report. The report made recommendations to address those issues arising that were confirmed by the audit, these being principally that income was paid into the Private School Fund, instead of the school's Delegated Budget and that VAT had not been promptly and properly accounted for and paid over to HM Revenues & Customs.

- Investigation into allegations of inappropriate use of funds by a secondary school, raised by anonymous letter.

Following the publication of an article in the *Rotherham Advertiser*, the Authority received anonymous letters containing accusations that a secondary school's school funds had been used to buy gifts for school staff and purchase goods for the personal use of the Head Teacher. Our work confirmed that purchases were made to reward staff for good OFSTED inspection and exam results. The conclusion was that in the absence of a written constitution it was not possible to form an opinion as to whether this expenditure was consistent with the objectives or purposes of the fund and as a consequence the school may have inadvertently exposed itself to reputational risk. During the audit it was noted that a significant sum of money generated from letting the school's sports facilities, was paid into the Private School Fund, instead of properly being paid into the school's Delegated Budget. Internal Audit made recommendations to address the issues.

- Investigations into allegations of financial abuse

We provided assistance with an investigation being undertaken by Adult Social Services and South Yorkshire Police into allegations of financial abuse of an elderly man with learning difficulties by a carer employed by a contractor. Insufficient evidence was found to support the allegations made; however, NAS management is working with the contractor to improve controls and procedures.

8. Management Response to Audit Reports.

8.1 The steps involved in carrying out audits, issuing audit reports and monitoring of management responses are as follows:-

- Audit is carried out and draft report issued.
- Draft report and action plan to address recommendations is discussed and agreed with client.

- Final report and action plan is issued formally.
- Client is asked to respond within 30 days as per Financial Regulations.
- Failure to respond within 6 weeks results in the issuing of reminder(s) and escalation with the Authority's line management structure.
- Where the failure to respond is protracted, a report can be taken to Strategic Leadership Team and Audit Committee.

8.2 Currently there are no significant issues where responses are outstanding or giving cause for concern.

9. Assessment of the Control Environment for Year to 31st March 2014.

9.1 Based upon the audit work undertaken it has been possible to produce a summary assessment of the Council's overall control environment. This assessment takes account also of the work of the External Auditor as reported to the Audit Committee during 2013/14.

9.2 Based upon the Internal Audit work undertaken this year, and placing reliance upon the work of the External Auditor, we can confirm that the Council's control environment for 2013/14 was adequate and operated satisfactorily during the year. A small number of items have been highlighted which do cause some Internal Audit concern. These have been brought to management's attention and Internal Audit will continue to monitor management actions to improve these areas. They do not change the overall opinion.

Planned Audits 2013/14

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<u>Resources Directorate / Corporate</u>						
Carbon Reduction Scheme	1	1	0	0	n/a	Adequate
Members Allowances & Expenses	2	2	0	0	0	Adequate
Logas Net	n/a	n/a	n/a	n/a	n/a	n/a
<u>ICT</u>						
Application Controls	5	*	*	0	n/a	Adequate
National Fraud Initiative	n/a	n/a	n/a	n/a	n/a	n/a
<u>Children and Young People's Services Directorate</u>						
Aston Fence Primary School	8	8	0	0	n/a	Adequate
Aughton Primary School	8	8	0	0	n/a	Adequate
Bramley Grange Primary School	20	20	0	0	n/a	Adequate
Brampton Ellis Infant School	15	15	0	0	n/a	Adequate
Ferham Primary School	20	20	0	0	n/a	Adequate
St Ann's Primary School	24	24	0	0	n/a	Adequate
Thorpe Hesley Junior School	14	14	0	0	n/a	Adequate
Thrybergh Primary School	34	*	*	0	n/a	Adequate
Woodsetts Primary School	28	28	0	0	n/a	Adequate
Wath Comprehensive School	12	*	*	0	n/a	Inadequate
Cherry Tree House/Liberty House	9	*	*	0	n/a	Adequate
Park View Children's Centre	19	**	**	0	n/a	Adequate
Rawmarsh Children's Centre	5	*	*	0	n/a	Adequate
Wath Victoria Children's Centre	9	**	**	0	n/a	Adequate
Riverside Pupil Referral Unit	9	*	*	0	n/a	Adequate
Schools Catering Service Income	23	*	*	0	n/a	Inadequate
Children's Social Care: North Locality Team	8	8	0	0	n/a	Adequate
Fostering and Adoption Service: Imprest Accounts	7	7	0	0	n/a	Adequate
Winterhill Private School Fund	4	4	0	0	n/a	Adequate
Troubled Families Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Wingfield Academy (payroll)	4	*	*	0	n/a	Adequate
Wingfield Academy (creditors)	10	**	**	0	n/a	Adequate

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<u>Neighbourhoods and Adult Services Directorate</u>						
Supporting People	1	1	0	0	n/a	Adequate
Addison Road Day Centre	6	4	2***	0	n/a	Adequate
Provision of Adult Social Care for the Elderly (Independent Sector)	11	11	0	0	n/a	Adequate
Licensing Income	8	8	0	0	n/a	Adequate
Repairs & Maintenance Contract (Wilmott Dixon)	11	*	*	3	*	Inadequate
Furnished Homes	15	*	*	2	*	Inadequate
<u>Environment and Development Services Directorate</u>						
Civic Theatre	10	10	0	0	n/a	Adequate
Local Land Charges	7	7	0	0	n/a	Adequate
Business Centres	1	1	0	0	n/a	Adequate
Waste PFI (BDR)	0	0	0	0	n/a	Adequate
Thrybergh Country Park	10	10	0	0	n/a	Adequate
Clifton Park	11	11	0	0	n/a	Adequate
Markets Income	5	5	0	0	n/a	Adequate
AFS Fire and Security Contract	2	2	0	0	n/a	Adequate
Home to School Transport	8	8	0	0	n/a	Adequate
Treatment of Waste (non-commercial)	4	4	0	0	n/a	Adequate
Customer Services Centres	9	9	0	0	0	Adequate
Bus Service Operators Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Blue Badge Scheme	3	*	*	0	n/a	Inadequate
<u>Fundamental Financial Systems</u>						
Creditor Payments	1	**	**	0	n/a	Adequate
NNDR	1	**	**	0	n/a	Adequate
Payroll	3	**	**	0	n/a	Adequate
Housing Rents	8	**	**	0	n/a	Adequate
Housing & Council Tax Benefits	3	**	**	0	n/a	Adequate
Council Tax	1	**	**	0	n/a	Adequate
Sundry Debtors	0	**	**	0	n/a	Adequate
<u>Contracts</u>						
EDS Design and Projects - Final Accounts System	9	9	0	0	n/a	Adequate
EDS Streetpride - A57 Improvement Scheme	11	**	**	0	n/a	Inadequate

* Final report issued - awaiting formal response to recommendations.

**Draft report issued – awaiting response/comments.

*** Awaiting agreement of Financial Services.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	23rd April 2014
3.	Title:	KPMG External Audit Plan 2013/14
4.	Directorate:	Resources

5. Summary

The Council's external auditor, KPMG, in their External Audit Plan (attached as Appendix 1) sets out the proposed external audit work to be undertaken to form an opinion on the Council's financial statements and to conclude on whether the Council has arrangements in place to secure value for money in the use of its resources.

6. Recommendations

That Audit Committee approves KPMG's External Audit Plan 2013/14, noting the proposed areas for audit identified.

7. Proposals

KPMG's External Audit Plan sets out the proposed audit work to be undertaken in relation to the 2013/14 financial year. The Plan has been drawn up using a risk-based approach to enable KPMG to audit and report on:

- **Financial Statements**
form an opinion on whether the Council's financial statements give a true and fair view of the Council's financial performance and financial position.
- **Use of Resources (Value for Money conclusion)**
conclude on whether the Council has arrangements in place to secure value for money from the use of its resources.

Financial Statements

Section 3 of KPMG's External Audit Plan (page 4 of the Plan) summarises the key stages KPMG will carry out in their audit of the financial statements.

Section 4 (pages 9 and 10 of the Plan) sets out the areas that KPMG will focus on during the audit in forming their opinion on the Financial Statements. The 3 areas to be reviewed are:

- The arrangements for closure of Digital Region Ltd
- The transition to a new general ledger structure
- The Pension valuation

KPMG will provide an update on how the Council is managing these risks in their Interim Audit Report which is due to be presented to Audit Committee in June 2014.

Value for Money Conclusion

KPMG's approach to reaching their Value For Money conclusion is set out in Section 5 (pages 11 to 15 of the Plan). The two key themes are:

- The Council's financial resilience to manage its financial risks effectively and sustain a stable financial position, and
- How effectively the Council challenges its arrangements to secure Value For Money and prioritise resources by, for example, improving productivity and efficiency and achieving cost reductions

The two areas to be reviewed where KPMG has identified a residual audit risk are:

- The arrangements for the closure of Digital Region Ltd
- The Council's savings plans for reductions in funding

Reporting

Section 6 (on pages 17 and 18) sets out the timing and nature of the audit reports KPMG will issue over the course of the 2013/14 audit.

Section 6 also identifies the key members of the audit team (page 16 of the Plan) and audit fee (page 19 of the Plan).

8. Finance

The 2013/14 audit fee of £186,300 is based on KPMG's assessment of the level of risk. The fee is the same as that included in the 2013/14 Audit Fee Letter and in line with expectations based on the Audit Commission's published work programme and scales of fees for 2013/14.

The fee is also in line with the fee for 2012/13.

9. Risks and Uncertainties

The External Audit Plan and audit fee is based on a number of assumptions set out on page 19 of the Plan. Changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations are not met. Should this be the case, KPMG will first discuss the reason for any change in fee with the Director of Financial Services. They will then be brought to the attention of the Audit Committee outlining the reasons for any change to the fee.

The indicative fee for 2014/15 is the same as in 2013/14, ie £186,300. Fees in 2015/16 and beyond will depend on the outcome of a retendering exercise the Audit Commission has recently completed. The retendered contracts are for the two years 2015/16 and 2016/17, extendable by a further three years to 2020. The Audit Commission estimates that this could produce further savings in the region of 25%. Details on audit appointments will be announced towards the end of this year following a period of consultation.

In order to benefit from a standstill audit fee in 2014/15 and possible reductions in fees from 2015/16 onwards it is important that risks are appropriately managed, financial controls remain in place, and the external auditors expectations continue to be met.

10. Policy and Performance Agenda Implications

Sustaining in 2013/14, the very positive Annual Audit Reports of recent years, will maintain the Council's excellent reputation for good financial management, governance and reporting.

11. Background Papers and Consultation

External Audit Plan 2013/14

Indicative Audit Fee Letter 2013/14

Audit Commission work programme and scale of fees

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cutting through complexity™

External Audit Plan 2013/14

Rotherham Metropolitan Borough Council

21 February 2014



Contents

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.audit-commission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Trevor Rees, the appointed engagement lead to the Authority, who will try to resolve your complaint. Trevor is also the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

This document describes how we will deliver our audit work for Rotherham Metropolitan Borough Council

Scope of this report

This document supplements our *Audit Fee Letter 2013/14* presented to you in April 2013. It describes how we will deliver our financial statements audit work for Rotherham Metropolitan Borough Council ('the Authority'). It also sets out our approach to value for money (VFM) work for 2013/14.

We are required to satisfy ourselves that your accounts comply with statutory requirements and that proper practices have been observed in compiling them. We use a risk based audit approach.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998* and the Audit Commission's *Code of Audit Practice*.

The *Code of Audit Practice* summarises our responsibilities into two objectives, requiring us to review and report on your:

- *financial statements (including the Annual Governance Statement)*: providing an opinion on your accounts; and
- *use of resources*: concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the value for money conclusion).

The Audit Commission's *Statement of Responsibilities of Auditors and Audited Bodies* sets out the respective responsibilities of the auditor and the Authority.

Structure of this report

This report is structured as follows:

- Section 2 includes our headline messages, including any key risks identified this year for the financial statements and Value for Money audit.
- Section 3 describes the approach we take for the audit of the financial statements.
- Section 4 provides further detail on the financial statements audit risks.
- Section 5 explains our approach to VFM work.
- Section 6 provides information on the audit team, our proposed deliverables, the timescales and fees for our work.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.



Section two Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

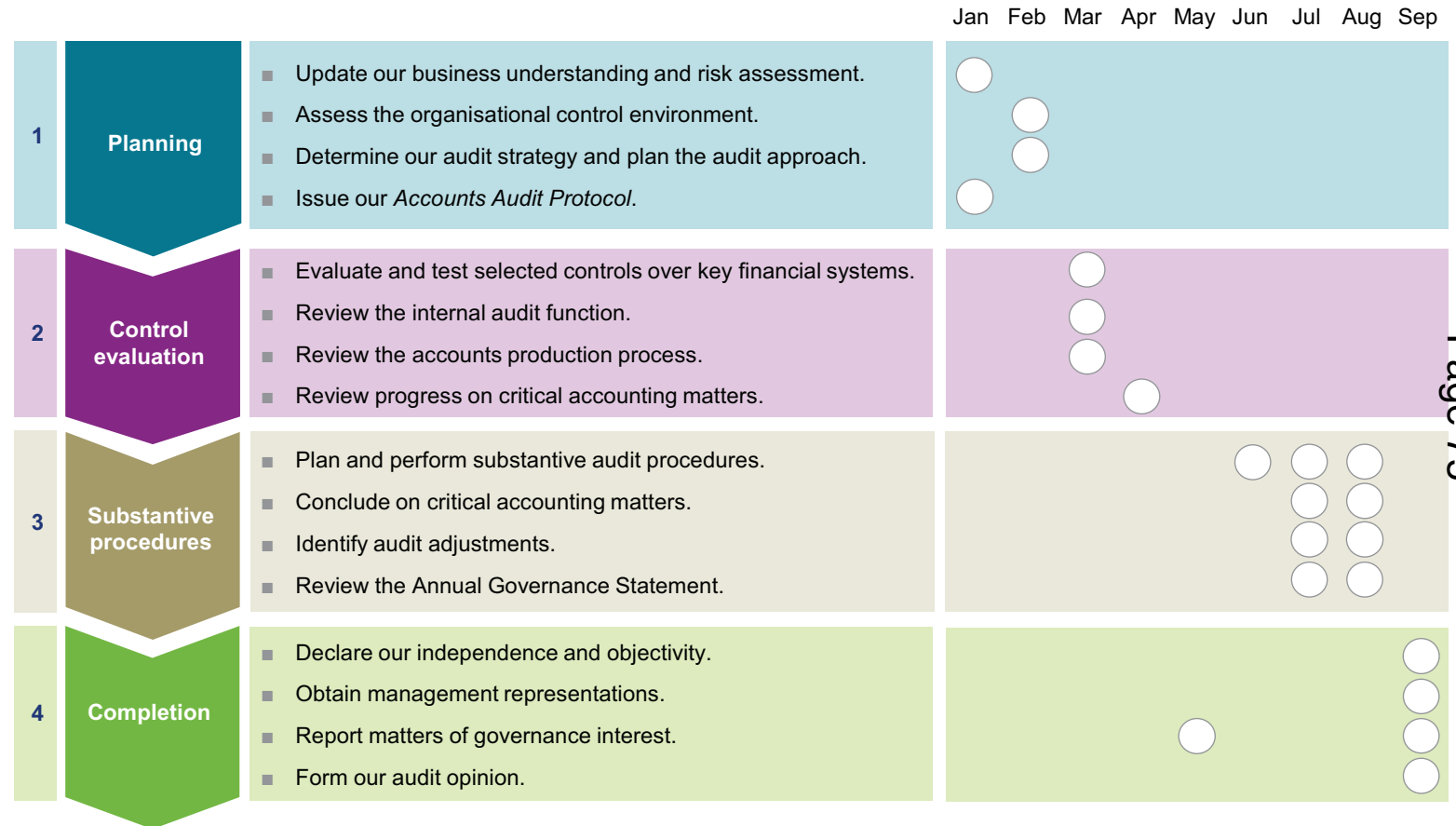
Audit approach	<p>Our overall audit approach is unchanged from last year. Our work is carried out in four stages and the timings for these, and specifically our on site work, have been agreed with the appropriate finance officers.</p> <p>Our audit strategy and plan remain flexible as risks and issues change throughout the year. We will review the initial assessments presented in this document throughout the year and should any new risks emerge we will evaluate these and respond accordingly.</p>
Key financial statements audit risks	<p>We have completed our initial risk assessment for the financial statements audit and have identified management override of controls as a significant risk. Our audit methodology incorporates this risk as a significant risk. This risk does not reflect any specific circumstances identified or expected in relation to the Authority. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p>
VFM audit approach	<p>We have completed our initial risk assessment for the VFM conclusion and have not identified any significant risks at this stage.</p>
Audit team, deliverables, timeline and fees	<p>There is a new engagement lead working on the team this year, Trevor Rees, who will bring a fresh perspective to the audit. The Senior Manager, Rashpal Khangura, and Assistant Manager, Amy Warner, remain unchanged and will provide continuity to the audit.</p> <p>Our year end audit is currently planned to commence on 30 June. Upon conclusion of our work we will present our findings to you in our <i>Report to Those Charged with Governance (ISA 260 Report)</i>.</p> <p>The planned fee for the 2013/14 audit is £186,300. This is unchanged from the position set out in our <i>Audit Fee Letter 2013/14</i>.</p>

Section three Our audit approach

We undertake our work on your financial statements in four key stages during 2014:

- **Planning** (January to February).
- **Control Evaluation** (March).
- **Substantive Procedures** (June to August).
- **Completion** (September).

We have summarised the four key stages of our financial statements audit process for you below:



During January and February 2014 we complete our planning work.

We assess the key risks affecting the Authority’s financial statements and discuss these with officers.

We assess if there are any weaknesses in respect of central processes that would impact on our audit.

We will issue our *Accounts Audit Protocol* following completion of our planning work.

Our planning work takes place in January and February 2014. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Accounts Audit Protocol*.

Business understanding and risk assessment

We update our understanding of the Authority’s operations and identify any areas that will require particular attention during our audit of the Authority’s financial statements.

We identify the key risks affecting the Authority’s financial statements. These are based on our knowledge of the Authority, our sector experience and our ongoing dialogue with Authority staff. Any risks identified to date through our risk assessment process are set out in this document. Our audit strategy and plan will, however, remain flexible as the risks and issues change throughout the year. It is the Authority’s responsibility to adequately address these issues. We encourage the Authority to raise any technical issues with us as early as possible so that we can agree the accounting treatment in advance of the audit visit.

We meet with the finance team on a regular basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit.

In particular risk management, internal control and ethics and conduct have implications for our financial statements audit. The scope of the work of your internal auditors also informs our risk assessment.

Audit strategy and approach to materiality

Our audit is performed in accordance with International Standards on Auditing (ISAs) (UK and Ireland). The Engagement Lead sets the overall direction of the audit and decides the nature and extent of audit activities. We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Lead.

In accordance with ISA 320 ‘*Audit materiality*’, we plan and perform our audit to provide reasonable assurance that the financial statements are free of material misstatement and give a true and fair view. Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.

An indicative level of materiality for 2013/14 is £15 million. This is based on the prior year Statement of Accounts and on our understanding of the projected outturn for the current year. This figure is a guide only. The overriding objective is to preserve the true and fair view presented by the financial statements and we will consider any audit differences, individually and cumulatively, in that context. See appendix 1 for further details.

Accounts audit protocol

At the end of our planning work we will issue our *Accounts Audit Protocol*. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

During March 2014 we will complete our interim audit work.

We assess if controls over key financial systems were effective during 2013/14. We work with your internal audit team to avoid duplication.

We work with your finance team to enhance the efficiency of the accounts audit.

We will report any significant findings arising from our work to the Audit Committee.

Our interim visit on site will be completed during March 2014. During this time we will complete work in the following areas:

Control Evaluation

- Evaluate and test controls over key financial systems identified as part of our risk assessment.
- Review the work undertaken by the internal audit function on controls relevant to our risk assessment.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where our risk assessment has identified that these are relevant to our final accounts audit and where we have determined that this is the most efficient audit approach to take. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Where our audit approach is to undertake controls work on financial systems, we seek to rely on any relevant work internal audit have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We have met with the Head of Internal Audit to discuss the principles and timetables for reviewing the work of internal audit.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the key financial systems identified as part of our risk assessment, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide feedback to the Head of Internal Audit at the end of our interim visit.

Critical accounting matters

We will discuss the work completed to address the specific risks we identified at the planning stage. Wherever possible, we seek to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

If there are any significant findings arising from our interim work we will present these to the Audit Committee in May 2014.

During July to August 2014 we will be on site for our substantive work.

We complete detailed testing of accounts and disclosures and conclude on critical accounting matters, such as specific risk areas. We then agree any audit adjustments required to the financial statements.

We also review the Annual Governance Statement for consistency with our understanding.

We will present our *ISA 260 Report to the Audit Committee* in September 2014.

Our final accounts visit on site has been provisionally scheduled for the period 30 June to 18 July. During this time, we will complete the following work:

Substantive Procedures

- Plan and perform substantive audit procedures.
- Conclude on critical accounting matters.
- Identify and assess any audit adjustments.
- Review the Annual Governance Statement.

Substantive audit procedures

We complete detailed testing on significant balances and disclosures. The extent of our work is determined by the Engagement Lead based on various factors such as our overall assessment of the Authority's control environment, the effectiveness of controls over individual systems and the management of specific risk factors.

Critical accounting matters

We conclude our testing of key risk areas identified at the planning stage and any additional issues that may have emerged since.

We will discuss our early findings of the Authority's approach to address the key risk areas with the Director of Finance in August 2014, prior to reporting to the Audit Committee in September 2014.

Audit adjustments

During our on site work, we will meet with the Director of Finance on a weekly basis to discuss the progress of the audit, any differences found and any other issues emerging.

At the end of our on site work, we will hold a closure meeting, where we will provide a schedule of audit differences and agree a timetable for the completion stage and the accounts sign off.

To comply with auditing standards, we are required to report uncorrected audit differences to the Audit Committee. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

Annual Governance Statement

We are also required to satisfy ourselves that your Annual Governance Statement complies with the applicable framework and is consistent with our understanding of your operations. Our review of the work of internal audit and consideration of your risk management and governance arrangements are key to this.

We report the findings of our final accounts work in our *ISA 260 Report*, which we will issue in September 2014.

In addition to the financial statements, we also audit the Authority’s Whole of Government Accounts pack.

We may need to undertake additional work if we receive objections to the accounts from local electors.

We will communicate with you throughout the year, both formally and informally.

Completion

- Declare our independence and objectivity.
- Obtain management representations.
- Report matters of governance interest.
- Form our audit opinion.
- Whole of Government accounts.
- Elector challenge (if applicable).

Whole Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Audit Committee.

Independence and objectivity confirmation

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm’s independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define ‘those charged with governance’ as ‘those persons entrusted with the supervision, control and direction of an entity’. In your case this is the Audit Committee.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standard 1 Integrity, Objectivity and Independence requires us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP’s independence and the objectivity of the Engagement Lead and the audit team.

Appendix 1 provides further detail on auditors’ responsibilities regarding independence and objectivity.

Confirmation statement

We confirm that as of date of this report in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office. Deadlines for production of the pack and issue of our opinion on the pack have not yet been confirmed.

Elector challenge

The Audit Commission Act 1998 gives electors certain rights. These are:

- the right to inspect the accounts;
- the right to ask the auditor questions about the accounts; and
- the right to object to the accounts.

As a result of these rights, in particular the right to object to the accounts, we may need to undertake additional work to form our decision on the elector’s objection. The additional work could range from a small piece of work where we interview an officer and review evidence to form our decision, to a more detailed piece of work, where we have to interview a range of officers, review significant amounts of evidence and seek legal representations on the issues raised.

The costs incurred in responding to specific questions or objections raised by electors is not part of the fee. This work will be charged in accordance with the Audit Commission’s fee scales.

Section four Key Areas of Audit Focus

Our initial assessment has not identified any significant risks that are specific to the Authority. We have however identified a number of areas of other audit focus.

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our *ISA 260 Report*. As noted below, we do not consider these risks reflect any specific circumstances identified or expected in relation to the Authority.

- Management override of controls – Our audit methodology incorporates the risk of management override as a default significant risk. Our assessment has identified this risk does not reflect any specific circumstances identified or expected in relation to the Authority. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- Fraudulent revenue recognition – We do not consider this to be a significant risk for local authorities in general or this Authority as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

Our initial assessment has not identified any significant risks that are specific to the Authority. We have however identified a number of areas of other audit focus.

We will revisit our assessment throughout the year and should any risks present themselves we will adjust our audit strategy as necessary.

Area of Audit Focus	Impact on audit
Digital Region Limited	During this financial year the Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). Significant costs had already been provided for in earlier years, when these costs became accruable under the accounting standard governing provisions (IAS37), so the Authority is confident that there will not be further significant costs in 2013/14. We will review the Authority's estimate of the costs arising from the orderly and managed closure of DRL at the time the Authority's 2013/14 accounts are prepared, commenting on its material accuracy and completeness as needed.
Transition to a new general ledger structure	The new general ledger structure was implemented in July 2013. This means that data was migrated mid-year. Additional work will be required during the audit to ensure the completeness and accuracy of the data which has been transferred over to the new ledger structure.

Section four
Key Areas of Audit Focus (continued)

Area of Audit Focus	Impact on audit
<p>Pension valuation</p>	<p>The IAS 19 adjustments and year-end net pensions liability are estimated based on various assumptions provided by the Authority’s actuarial advisors. Given the value of the Authority’s net pension liabilities at 31 March 2013 (£186m following the triennial valuation) and the level of accounting judgement involved, this balance continues to represent significant accounting judgement.</p> <p>During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2013 in line with the Local Government Pension Scheme (Administration) Regulations 2008. The Authority’s share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.</p> <p>The IAS 19 numbers to be included in the financial statements for 2013/14 will be based on the output of the triennial valuation rolled forward to 31 March 2014. For 2014/15 and 2015/16 the actuary will then roll forward the valuation for accounting purposes based on more limited data.</p> <p>In order to calculate the valuation, data is provided to the actuary. As part of our audit, we will need to agree the data provided to the actuary back to the systems and reports from which it was derived, and test the accuracy of this data.</p> <p>We will liaise with colleagues in KPMG, who are the auditors of the Pension Fund, where this data was provided by the Pension Fund on the Authority’s behalf. The Pension Fund may seek to recharge any additional costs arising from this work.</p> <p>It is therefore critical that the assumptions reflect the profile of the Authority’s employees, and are based on the most recent actuarial valuation. It is also important that assumptions are derived on a consistent basis year to year.</p>

Our approach to VFM work follows guidance provided by the Audit Commission.

Background to approach to VFM work

In meeting their statutory responsibilities relating to economy, efficiency and effectiveness, the Commission's *Code of Audit Practice* requires auditors to:

- plan their work based on consideration of the significant risks of giving a wrong conclusion (audit risk); and
- carry out only as much work as is appropriate to enable them to give a safe VFM conclusion.

To provide stability for auditors and audited bodies, the Audit Commission has kept the VFM audit methodology unchanged from last year. There are only relatively minor amendments to reflect the key issues facing the local government sector.

The approach is structured under two themes, as summarised below.

Specified criteria for VFM conclusion	Focus of the criteria	Sub-sections
The organisation has proper arrangements in place for securing financial resilience .	The organisation has robust systems and processes to: <ul style="list-style-type: none"> ■ manage effectively financial risks and opportunities; and ■ secure a stable financial position that enables it to continue to operate for the foreseeable future. 	<ul style="list-style-type: none"> ■ Financial governance ■ Financial planning ■ Financial control
The organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness .	The organisation is prioritising its resources within tighter budgets, for example by: <ul style="list-style-type: none"> ■ achieving cost reductions; and ■ improving efficiency and productivity. 	<ul style="list-style-type: none"> ■ Prioritising resources ■ Improving efficiency and productivity

We will follow a risk based approach to target audit effort on the areas of greatest audit risk.

Overview of the VFM audit approach

The key elements of the VFM audit approach are summarised below.



Each of these stages are summarised further below.

VFM audit stage	Audit approach
VFM audit risk assessment	<p>We consider the relevance and significance of the potential business risks faced by all local authorities, and other risks that apply specifically to the Authority. These are the significant operational and financial risks in achieving statutory functions and objectives, which are relevant to auditors' responsibilities under the <i>Code of Audit Practice</i>.</p> <p>In doing so we consider:</p> <ul style="list-style-type: none"> the Authority's own assessment of the risks it faces, and its arrangements to manage and address its risks; information from the Audit Commission's VFM profile tool and financial ratios tool; evidence gained from previous audit work, including the response to that work; and the work of other inspectorates and review agencies.



Section five VFM audit approach (continued)

Our VFM audit will draw heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

We will then form an assessment of residual audit risk to identify if there are any areas where more detailed VFM audit work is required.

VFM audit stage	Audit approach
Linkages with financial statements and other audit work	<p>There is a degree of overlap between the work we do as part of the VFM audit and our financial statements audit. For example, our financial statements audit includes an assessment and testing of the Authority's organisational control environment, including the Authority's financial management and governance arrangements, many aspects of which are relevant to our VFM audit responsibilities.</p> <p>We have always sought to avoid duplication of audit effort by integrating our financial statements and VFM work, and this will continue. We will therefore draw upon relevant aspects of our financial statements audit work to inform the VFM audit.</p>
Assessment of residual audit risk	<p>It is possible that further audit work may be necessary in some areas to ensure sufficient coverage of the two VFM criteria.</p> <p>Such work may involve interviews with relevant officers and /or the review of documents such as policies, plans and minutes. We may also refer to any self assessment the Authority may prepare against the characteristics.</p> <p>To inform any further work we must draw together an assessment of residual audit risk, taking account of the work undertaken already. This will identify those areas requiring further specific audit work to inform the VFM conclusion.</p> <p>At this stage it is not possible to indicate the number or type of residual audit risks that might require additional audit work, and therefore the overall scale of work cannot be easily predicted. If a significant amount of work is necessary then we will need to review the adequacy of our agreed audit fee.</p>
Identification of specific VFM audit work	<p>If we identify residual audit risks, then we will highlight the risk to the Authority and consider the most appropriate audit response in each case, including:</p> <ul style="list-style-type: none"> ■ considering the results of work by the Authority, inspectorates and other review agencies; and ■ carrying out local risk-based work to form a view on the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources.



Section five VFM audit approach (continued)

Where relevant, we may draw upon the range of audit tools and review guides developed by the Audit Commission.

We will conclude on the results of the VFM audit through our ISA 260 Report.

VFM audit stage	Audit approach
Delivery of local risk based work	<p>Depending on the nature of the residual audit risk identified, we may be able to draw on audit tools and sources of guidance when undertaking specific local risk-based audit work, such as:</p> <ul style="list-style-type: none"> ■ local savings review guides based on selected previous Audit Commission national studies; and ■ update briefings for previous Audit Commission studies. <p>The tools and guides will support our work where we have identified a local risk that is relevant to them. For any residual audit risks that relate to issues not covered by one of these tools, we will develop an appropriate audit approach drawing on the detailed VFM guidance and other sources of information.</p>
Concluding on VFM arrangements	<p>At the conclusion of the VFM audit we will consider the results of the work undertaken and assess the assurance obtained against each of the VFM themes regarding the adequacy of the Authority's arrangements for securing economy, efficiency and effectiveness in the use of resources.</p> <p>If any issues are identified that may be significant to this assessment, and in particular if there are issues that indicate we may need to consider qualifying our VFM conclusion, we will discuss these with management as soon as possible. Such issues will also be considered more widely as part of KPMG's quality control processes, to help ensure the consistency of auditors' decisions.</p>
Reporting	<p>On the following page, we report the results of our initial risk assessment.</p> <p>We will report on the results of the VFM audit through our <i>ISA 260 Report</i>. This will summarise any specific matters arising, and the basis for our overall conclusion.</p> <p>If considered appropriate, we may produce a separate report on the VFM audit, either overall or for any specific reviews that we may undertake.</p> <p>The key output from the work will be the VFM conclusion (i.e. our opinion on the Authority's arrangements for securing VFM), which forms part of our audit report.</p>

Section five VFM audit approach (continued)

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

We will carry out additional risk-based work on Digital Region Limited and the savings plans for reductions in funding.

In line with the risk-based approach set out on the previous page, we have

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;

- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- concluded to what extent we need to carry out additional risk-based work.

Below we set out our preliminary findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion,

We will report our final conclusions in our *ISA 260 Report 2013/14*.

VFM Risk description	Preliminary assessment
Digital Region Limited (DRL)	<p>As described, under the financial statements risks section, the Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). The Authority needs to ensure it has appropriate arrangements to ensure the closure of Digital Region Limited is managed to reduce the financial impact on the Authority.</p> <p>We will review the actions the Authority takes to monitor the potential costs it faces and the arrangements to close DRL.</p>
Saving plans for reductions in funding	<p>The Authority currently estimates that £23 million in savings will need to be achieved during 2014/15. We are aware the Authority is in the process of developing and agreeing proposals with Members for these savings. Further significant savings will be required in 2015/16 and 2016/17 to principally address future reductions to local authority funding alongside service cost and demand pressures.</p> <p>We will critically assess the controls the Authority has in place to ensure sound financial standing, specifically that its Medium Term Financial Plan has duly taken into consideration the potential funding reductions and that it is sufficiently robust to ensure that the Authority can continue to provide services effectively. We will also review how the Authority is planning and managing its savings plans.</p>



Section six Audit team

Your audit team has been drawn from our specialist public sector assurance department.

Contact details are shown on page 1.

The audit team will be assisted by other KPMG specialists as necessary.



Trevor Rees
Partner

“My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.

I will be the main point of contact for the Audit Committee and Chief Executive.”



Rashpal Khangura
Senior Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will work closely with directors to ensure we add value. I will be the main contact for the Director of Finance and other executive directors.”



Amy Warner
Assistant Manager

“I will be responsible for the on-site delivery of our work. I will liaise with the Chief Accountant. I will also supervise the work of our audit assistants.”



Section six Audit deliverables

At the end of each stage of our audit we issue certain deliverables, including reports and opinions.

Our key deliverables will be delivered to a high standard and on time.

We will discuss and agree each report with the Authority's officers prior to publication.

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> ■ Outlines our audit approach. ■ Identifies areas of audit focus and planned procedures. 	March 2014
Control evaluation		
Interim Report (if required)	<ul style="list-style-type: none"> ■ Details control and process issues. ■ Identifies improvements required prior to the issue of the draft financial statements and the year-end audit. 	May 2014
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> ■ Details the resolution of key audit issues. ■ Communicates adjusted and unadjusted audit differences. ■ Highlights performance improvement recommendations identified during our audit. ■ Comments on the Authority's value for money arrangements. 	September 2014
Completion		
Auditor's Report	<ul style="list-style-type: none"> ■ Provides an opinion on your accounts (including the Annual Governance Statement). ■ Concludes on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2014
Whole of Government Accounts	<ul style="list-style-type: none"> ■ Provide our opinion on the Authority's WGA pack submission. 	September 2014
Annual Audit Letter	<ul style="list-style-type: none"> ■ Summarises the outcomes and the key issues arising from our audit work for the year. 	November 2014

We will be in continuous dialogue with you throughout the audit.

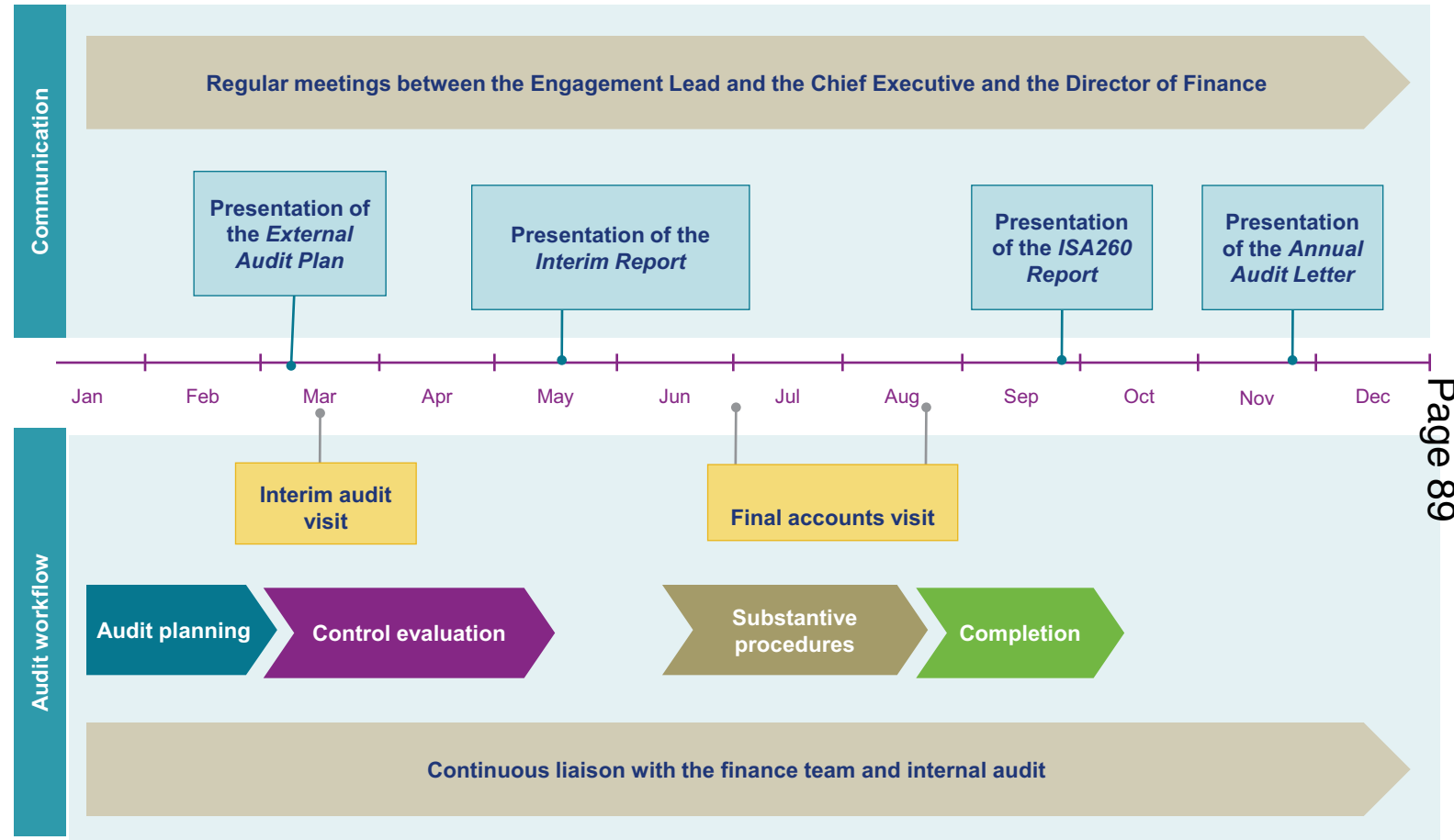
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- May – Interim Report
- September – ISA 260 Report;
- November – Annual Audit Letter.

We work with the finance team and internal audit throughout the year.

Our main work on site will be our:

- Interim audit visits during March.
- Final accounts audit during July and August.



Key: ● Audit Committee meetings.

The fee for the 2013/14 audit of the Authority is £186,300. The fee has not changed from that set out in our *Audit Fee Letter 2013/14* issued in April 2013.

Our audit fee remains indicative and based on you meeting our expectations of your support.

Meeting these expectations will help the delivery of our audit within the proposed audit fee.

Audit fee

Our *Audit Fee Letter 2013/14* presented to you in April 2013 first set out our fees for the 2013/14 audit. We have not considered it necessary to make any changes to the agreed fees at this stage.

Our audit fee includes our work on the VFM conclusion and our audit of the Authority's financial statements.

The planned audit fee for 2013/14 is £186,300. This is in line with the prior year fee.

Audit fee assumptions

The fee is based on a number of assumptions, including that you will provide us with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. It is imperative that you achieve this. If this is not the case and we have to complete more work than was envisaged, we will need to charge additional fees for this work. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2012/13;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2013/14* within your 2013/14 financial statements;
- you will comply with the expectations set out in our *Accounts Audit Protocol*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors or for special investigations such as those arising from disclosures under the Public Interest Disclosure Act 1998.

Meeting these expectations will help ensure the delivery of our audit within the agreed audit fee.

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. Future audit fees can be kept to a minimum if the Authority achieves an efficient and well-controlled financial closedown and accounts production process which complies with good practice and appropriately addresses new accounting developments and risk areas.

Changes to the audit plan

Changes to this plan and the audit fee may be necessary if:

- new significant audit risks emerge;
- additional work is required of us by the Audit Commission or other regulators; and
- additional work is required as a result of changes in legislation, professional standards or financial reporting requirements.

If changes to this plan and the audit fee are required, we will discuss and agree these initially with the Director of Finance.

This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

- carry out their work with independence and objectivity;
- exercise their professional judgement and act independently of both the Commission and the audited body;
- maintain an objective attitude at all times and not act in any way that might give rise to, or be perceived to give rise to, a conflict of interest; and
- resist any improper attempt to influence their judgement in the conduct of the audit.

In addition, the Code specifies that auditors should not carry out work for an audited body that does not relate directly to the discharge of the auditors' functions under the Code. If the Authority invites us to carry out risk-based work in a particular area, which cannot otherwise be justified to support our audit conclusions, it will be clearly differentiated as work carried out under section 35 of the Audit Commission Act 1998.

The Code also states that the Commission issues guidance under its powers to appoint auditors and to determine their terms of appointment. The Standing Guidance for Auditors includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of Commission-related work, and senior members of their audit teams should not take part in political activity.
- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.

- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Firms are expected to comply with the requirements of the Commission's protocols on provision of personal financial or tax advice to certain senior individuals at audited bodies, independence considerations in relation to procurement of services at audited bodies, and area wide internal audit work.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the standing guidance.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

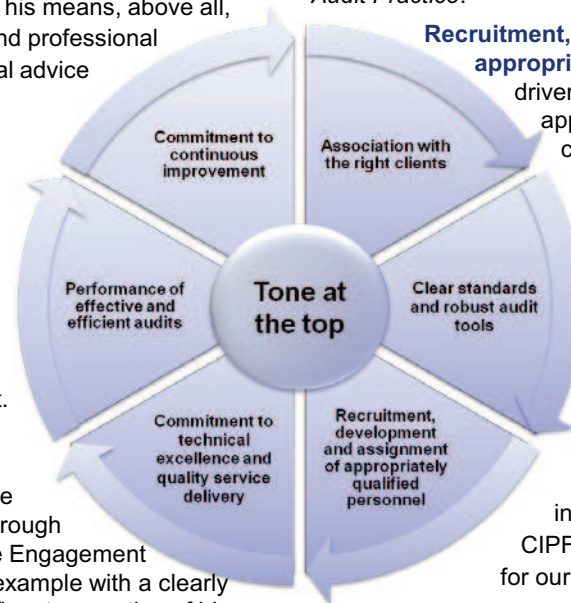
We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Trevor as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Authority's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



Appendices

Appendix 2: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The Audit Commission publishes information on the quality of work provided by KPMG (and all other firms) for audits undertaken on behalf of them (<http://www.audit-commission.gov.uk/audit-regime/audit-quality-review-programme/principal-audits/kpmg-audit-quality>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2013) showed that we performed highly against the Audit Commission's criteria. We were one of only two firms to receive a combined audit quality and regulatory compliance rating of green for 2012/13.



cutting through complexity™

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ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS
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1.	Meeting:	Audit Committee
2.	Date:	23rd April 2014
3.	Title:	Closure of Accounts 2013/14
4.	Directorate:	Resources

5. Summary

The principal objective of the Council's annual financial statements is to provide information about the Council's financial performance, financial position and cash flows that is useful to a wide range of local and national stakeholders in assessing the Council's stewardship of its resources. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

This report brings to Members' attention the main changes to accounting standards and disclosure requirements in 2013/14; their effect on the Council's accounting policies; and the project management arrangements that will be employed to secure the timely closure and production of the 2013/14 Financial Statements that are fully compliant with the Code of Practice on Local Authority Accounting (the Code). It also reminds Members that the Audit Committee will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish the unaudited Financial Statements to be presented to Audit Committee at its meeting in July for information.

6. Recommendations

Audit Committee is asked to:

- **Note the changes to the Council's accounting policies**
- **Note the requirement for the Audit Committee to formally approve the audited 2013/14 Financial Statements at its September meeting**
- **Approve the receipt for information of the unaudited Financial Statements at its July meeting**

7. Proposals

Local authority accounting operates in a dynamic environment which is subject to ongoing changes to accounting standards and legislative requirements which impact on local government financial reporting.

It is important that the Council continues to respond to these changes promptly and effectively to ensure that the financial information used by management and stakeholders faithfully represents the Council's true financial position.

7.1 Changes to the accounting framework in 2013/14

The key changes in 2013/14 and action taken to address them are tabulated in Appendix 1.

We have continued to liaise closely with our external auditors, KPMG, to ensure that they are satisfied that these changes and the key risks identified in their External Audit Plan are being properly addressed and will continue to do so during closedown and over the course of their audit.

7.2 Changes to the Council's accounting policies in 2013/14

The Code has adopted the following accounting standards in 2013/14:

- Amendments to IAS 19 Employee benefits
- Amendments to IAS 1 Presentation of Financial Statements
- Offsetting financial assets and liabilities under IFRS 7
- Deferred taxation on an entities income under IAS 12 (only applicable where Group Accounts are prepared)

In addition, the Code has provided clarification on a number of existing accounting standards as part of the Annual Improvements to IFRS programme. This includes: the recognition and valuation of property, plant and equipment; recognition of PFI assets under construction; the classification of leases provided for a nominal or peppercorn rent, and: recognition of Assets Held for Sale.

None of the changes or clarifications has had a material impact on 2013/14 and there has therefore been no need to adjust the comparatives reported in the previous period (financial year).

However, certain policies have been amended as a result of the above and to reflect changes to the way in which the Council's operations are funded under localisation. These are as follows:

- Tax income (Accounting Policy 7) – section on business rates income updated to reflect changes arising as a result of the localisation of business rates with effect from 1 April 2013
- Employee benefits (Accounting Policy 23) – minor change to the point at which severance costs and other termination benefits are charged to

revenue and technical changes to the way in which pension costs (post-retirement benefits) relating to defined benefit schemes are presented in the accounts

- Acquisitions and discontinued operations (Accounting Policy Note 29) – new accounting policy added to explain how the transfer of public health functions from the NHS with effect from 1 April 2013 have been accounted for in the Council's 2013/14 accounts

Amended accounting policy notes 7, 23 and 29 are re-produced in Appendix 2 with the changes highlighted in italics for Members information.

7.3 Financial reporting – Audit Committee's role

Prior to 2010/11 the Accounts and Audit Regulations required that the unaudited Financial Statements be approved by Members by 30 June and the audited Financial Statements by 30 September. The Accounts and Audit Regulations 2011 removed the requirement for Members to formally approve the unaudited Financial Statements.

Audit Committee resolved that in order to maintain strong governance over financial reporting it wished to continue to receive the unaudited Financial Statements for information after they have been authorised and released for publication.

Assuming Members wish this to remain the case, the key dates Members need to be aware of are:

- 30 June 2014 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Director of Financial Services.
- July 2014 Audit Committee – unaudited 2013/14 Financial Statements to be presented to Audit Committee for information.
- September 2014 Audit Committee – audited 2013/14 Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report which sets out the findings of their audit of the Financial Statements.

8. Finance

No additional financial implications beyond the current budgetary provision are anticipated.

9. Risks and Uncertainties

The preparation, approval and publication of the Council's annual Financial Statements remain a cornerstone of financial accountability for the local electorate, Members and other stakeholders.

Failure to comply with the Accounts and Audit Regulations, other relevant legislation and local authority accounting requirements as set out in the Code may indicate a weakness in financial reporting whereas compliance demonstrates strong governance is in place and ensures best practice is being followed.

As in previous years, in order to minimise the risk of these objectives not being met, the closedown process and production of the accounts will be project managed and subject to quality assurance arrangements.

10. Policy and Performance Agenda Implications

None other than the reputational risk referred to above from non-compliance.

11. Background Papers and Consultation

Code of Practice on Local Authority Accounting 2013/14
Service Reporting Code of Practice 2013/14
Accounts and Audit Regulations 2011
Audit Committee – March 2013

Simon Tompkins, Finance Manager, extension 54513
simon.tompkins@rotherham.gov.uk

Key changes in 2013/14

Area of accounts	Change in accounting practice / new disclosure required	Action taken
Collection Fund – business rates	<p>The localisation of business rates with effect from 1 April 2013, will lead to significant changes to the way they are accounted for in 2013/14. Under localisation, these risks and rewards are shared between the Council, central government and South Yorkshire Fire in the ratio 49:50:1</p> <p>To reflect this change, the Collection Fund will show the surplus or deficit against the budgeted business rate income for the year and the proportionate share borne by central government, South Yorkshire Fire, and the Council which is to be distributed / recovered in future years.</p> <p>Rating appeals will have a key bearing on whether or not budgeted income is achieved. A prudent approach has been taken to estimating the level of refunds using detailed statistics provided by the Valuation Office.</p>	<p>Proforma 2013/14 Collection Fund amended to take account of the changes.</p> <p>Accounting policy updated</p>
Collection Fund – council tax	<p>The localisation of council tax and introduction of the Local Council Tax Reduction scheme with effect from 1 April 2013, will lead to a significant change to the way in which council tax income is presented in the accounts.</p> <p>Deductions from the amount due from council tax payers under the Local Council tax Reduction Scheme are treated as a discount and no longer therefore attract housing benefit grant. The government instead provides financial support by means of a Council tax reduction support grant which is credited to the General Fund.</p>	<p>Proforma 2013/14 accounts amended to take account of the changes</p>
Employee benefits	<p>Amendments to accounting standards relating to employee benefits will lead to presentational changes to the way in which the components of staff costs (earnings, termination benefits and pension costs) are presented in the Comprehensive Income and Expenditure Statement (CIES).</p> <p>These are technical in nature and do not affect the amounts chargeable to revenue.</p>	<p>Pro-forma 2013/14 accounts amended to take account of the changes</p> <p>Accounting policy updated</p>
Schools converting to academies	<p>During the course of 2013/14, 17 maintained schools converted to academies. The annual budget of these schools is £33m. This will mean that there will be a substantial reduction in the amount of income and expenditure reported in</p>	<p>Impact to be highlighted in the Foreword to the accounts and other relevant disclosures</p>

	2013/14 under Education and Children Services relative to 2012/13. It also has led to school buildings with a value of £42m being removed from the Council's balance sheet.	
Public Health	A new line has been added to the CIES to disclose public health income and expenditure following the transfer of public health from the NHS to the Council with effect from 1 April 2013.	New line added to CIES Accounting policy added

Appendix 2

7 Tax Income (Council Tax, Residual Community Charge, National Non-Domestic Rates and Rates)**National Non-Domestic Rates (NNDR)**

NNDR collection is an agency arrangement. Business rate income within the Comprehensive Income & Expenditure Statement is the Council's share of the accrued business rate income for the year. The difference between this and the amount transferred to the General Fund under statute (representing the Council's share of the estimated business rate income for the year together with the Council's share of the previous year's surplus or deficit which is distributed or recovered) is taken to the Collection Fund Adjustment Account. The central share (after allowable deductions) of business rate income is paid out of the Collection Fund to central government. Growth in business rate income in an Enterprise Zone area, business rate income from renewable energy schemes and from businesses in New deal areas is wholly attributable to the Council and transferred in full to the General Fund on an accruals basis. Debtors are shown exclusive of the proportions attributable to major preceptors.

23 Employee Benefits**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis *at the earlier of when the Council can no longer withdraw an offer of those benefits or when the Council recognises the cost of restructuring.*

Redundancy payments are charged to the relevant service line in the Comprehensive Income and Expenditure Statement.

Pension strain costs are charged to Non Distributed Costs in accordance with statutory provisions which require that the General Fund be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards.

PostEmployment Benefits

Employees of the Council are members of two separate pension schemes:

- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education
- The Local Government Pensions Scheme, administered by South Yorkshire Pensions Authority

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council.

The arrangements for the teachers' scheme mean that liabilities for these benefits cannot be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Children's and Education

Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to the Teachers' Pensions Scheme in the year.

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bonds. In determining these liabilities, an assumption has been made on the advice of our actuaries that 50% of employees retiring will take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension
- The assets of the South Yorkshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unlisted securities – current bid price
 - property – market value.
- The change in the net pensions liability is analysed into the following components:
 - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
 - *past service cost – the increase in liabilities arising from current year decisions as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs*
 - *net interest - interest receivable on the fair value of plan assets held at the start of the period adjusted for changes in plan assets during the year as a result of contributions and benefit payments less the interest payable on pension liabilities both determined using the discount rate based on high quality corporate bonds used to measure the defined benefit obligation at the beginning of the period – debited /credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement*
 - *re-measurements - return on plan assets excluding amounts included in net interest and actuarial gains/losses that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions debited/credited to the Pensions reserve as Other Comprehensive Income and Expenditure*

- contributions paid to the South Yorkshire pension fund – cash paid as employer’s contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

29 Acquisitions and discontinued operations

Responsibility for public health functions was transferred from the NHS to the Council with effect from 1 April 2013. Assets and liabilities have been transferred at book value as required by CIPFA guidance on public sector combinations.

Income and expenditure relating to public health is presented in the Comprehensive Income and Expenditure statement under the heading of “services transferred from the NHS”.