

AUDIT COMMITTEE

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

Date: Wednesday, 20 July 2011

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 29th June, 2011 (herewith) (Pages 1 - 2)
4. Chairman's Briefing
5. Annual Fraud Report 2010/11 (herewith) (Pages 3 - 15)
Steve Pearson
6. Audit and Inspection Recommendations Update (report herewith) (Pages 16 - 23)
7. KPMG 2010/11 Interim External Audit Report (herewith) (Pages 24 - 51)
8. 2010/11 Unaudited Statement of Accounts (report herewith) (Pages 52 - 67)

AUDIT COMMITTEE
29th June, 2011

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

Also in attendance were Mrs. A. Bingham (Vice-Chair of the Standards Committee) and Rob Mitchell and Alison Ormston (KPMG)

Apologies for absence were received from Councillors License and Sims.

P7. MINUTES

Resolved:- That the minutes of the previous meeting held on 1st June, 2011 be agreed as a correct record.

P8. EXTERNAL AUDIT PLAN 2011/12

Stuart Booth, Director of Central Finance, presented the submitted report incorporating KPMG's Annual Audit Plan letter for Rotherham MBC in 2011/12.

The Plan set out the proposed external audit work relating to Council services and functions to be undertaken in 2011/12.

The Plan had been drawn up using a risk based approach to audit planning.

It reflected:-

- audit work identified by KPMG for 2011/12
- current national risks relevant to the Council's local circumstances
- the Council's local risks and improvement priorities

The main two elements of the external auditor's work was in relation to :-

- Financial statements 2011/12
- Value for Money conclusion 2011/12

In addition, work would be undertaken on the following:-

- Interim Audit Review
- Whole of Government Accounts (WGA)
- Certification of Grant Claims and Returns

Resolved:- That KPMG's Annual Audit Plan letter for 2011/12 be approved and the proposed areas identified for audit be noted.

P9. SUNDRY ACCOUNTS - PERFORMANCE 2010/11

Stuart Booth, Director of Central Finance, presented the submitted report updating on the performance of the sundry accounts function and how changes in the computer system and working practices had contributed to improved collection rates and more efficient account management.

Resolved:- (1) That the information be noted.

(2) That the significant improvements made in the performance of the sundry accounts function, particularly over the last twelve months, be acknowledged and welcomed.

P10. AUDIT COMMITTEE UPDATE - ISSUE 5

Colin Earl, Director of Internal Audit and Governance, presented the submitted report indicating that the Better Governance Forum had issued recently its fifth edition of the Audit Committee Update series. The purpose of the publication was to provide members with direct access to relevant and topical information that would support them in their role.

The submitted fifth edition covered:-

- International Financial Reporting Standards (IFRS)
- results of a national survey on audit committees
- current issues and developments
 - Accounts and Audit Regulations 2011
 - The Bribery Act 2010
 - Housing, finance and treasury management implications
 - Treasury Management
 - Risk Governance

It was noted that the key submitted questions identified would be considered at future meetings of the Committee.

Resolved:- (1) That the information be noted.

(2) That the arrangements in place for managing the various issues raised be supported.

(3) That the proposals to bring forward further reports to the Audit Committee on specific issues be noted.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE
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1.	Meeting:	Audit Committee
2.	Date:	20 July, 2011
3.	Title:	Annual Fraud Report 2010/11
4.	Directorate:	Financial Services

5. Summary

The purpose of the attached Annual Fraud Report 2010/11 is to bring together in one document a summary of the work which has taken place in the period to prevent and detect fraud and corruption. By publicising the report we aim to show the Council's commitment to minimising the risk of fraud and deter any would-be fraudsters.

It should be noted that the incidence of fraud remains very low in overall terms, taking into account the Council's activities and spending. General fraud cases (excluding benefits) exceeding £10,000 are required to be reported to the Audit Commission and there were none of these in 2010/11. However:

- RBT, which administers the Housing Benefit service on the Council's behalf, recovered £2.45m overpayments of benefits (mainly as a result of error but including fraudulent claims). Amounts recovered are used in delivering front line services for the benefit of Rotherham residents
- RBT investigated 895 potentially fraudulent Housing and Council Tax Benefit cases, obtained 25 prosecutions and issued 191 cautions and penalties
- Investigations of cases highlighted by the Audit Commission's 'National Fraud Initiative', led by the Council's Internal Audit Service, identified savings in excess of £249k
- 109 Blue Badge Parking Permits were withdrawn as a result of validation checking against deceased persons' records and 19 successful prosecutions were made against fraudulent permit users.

These outcomes demonstrate the Council's zero-tolerance to fraud.

6. Recommendations

The Audit Committee is asked to:

- **Support the production of the Annual Fraud Report 2010/11**
- **To agree to appropriate publicity being produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.**

7. Proposals and Details

Attached at **Appendix A** is a draft annual fraud report for 2010/11. By approving the contents and distribution of the report, the Audit Committee will be supporting an important aspect of the Council's Anti-Fraud & Corruption Strategy. The purpose of the report is to raise awareness and inform our stakeholders of the work the Council undertakes to manage the risk of fraud and corruption. It brings together in one document a summary of the outcomes of our work to prevent and detect fraud and corruption.

There were over 8,880 Housing and Council Tax Benefit overpayments made in 2010/11. Most of these were not fraudulent. However, RBT completed investigations in to 895 suspicious overpayment cases. The Service obtained 25 successful prosecutions for Housing and Council Tax Benefit Fraud. RBT also issued 107 formal cautions and 84 administrative penalties.

Other outcomes included:-

- Recovering over £1.32m paid out in fraudulent or incorrect housing benefit claims.
- Recharging Council Tax payers £1.13m for overpayments of Council Tax benefit payments
- Claiming Government subsidy totalling £1.19m as a result of the Council's identification of overpayments.
- Identifying savings of over £249k following investigations lead by Internal Audit into a number of cases highlighted by the Audit Commission's National Fraud Initiative. These savings related principally to Single Person Discount (£199k) and false Benefit Claims (£50k).

8. Finance

Any costs associated with publicising the outcomes achieved in the year can be contained within financial services' budget. Publication of positive outcomes can enhance the Council's reputation and deter fraud and corruption against the Council.

9. Risks and Uncertainties

Failure to maintain robust arrangements for the prevention and detection of fraud and corruption increases the risk of loss to the Council from fraudulent activity.

10. Policy and Performance Agenda Implications

The production and distribution of the Annual Fraud Report 2010/11 will contribute towards good governance.

11. Background Papers and Consultation

CIPFA – 'Managing the Risk of Fraud'
RMBC Anti-Fraud Policy and Action Plan
RMBC Internal Audit Plan 2010/11

Contact Names:

Colin Earl, Director of Internal Audit and Governance, x22033

Steve Pearson, Audit Manager, Ext 23293

Appendices:

Appendix A Annual Fraud Report 2010/11

Appendix A

ROTHERHAM MBC

ANNUAL FRAUD REPORT 2010/11

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1. INTRODUCTION

Rotherham Council has a zero tolerance to fraud and corruption

This is the third annual fraud report produced by Rotherham Council. Its purpose is to raise awareness by informing our stakeholders of the work the Council undertakes to manage the risk of fraud and corruption. It brings together in one document a summary of the outcomes of our work to prevent and detect fraud and corruption.

Since the publication of our first annual fraud report in 2008/09 the economic position nationally has worsened. This in turn has led to a further tightening of the purse strings locally. In such an economic climate the importance of minimising the risk of fraud is increased. We might expect to see an increased risk of losses through fraud and corruption as individuals and organisations get into financial difficulty. It is important, therefore, that we maintain our guard in this respect, as any public sector body can ill afford to suffer losses of this nature when our budgets are so constrained.

Rotherham Borough Council employs nearly 13,000 people and provides services costing more than £400 million in 2010/11. It paid over £96.7million to 30,000 Housing and Council Tax Benefits claimants. Like any organisation of this size, the Council can be vulnerable to fraud and corruption, both from within and outside the organisation. The Council aims to minimise its risk of loss due to fraud and corruption, recognising that any loss incurred may be borne by the honest majority.

The Council's commitment to minimising the risk of fraud and corruption is outlined in the following extract from its Anti-Fraud & Corruption Policy:

"The Council is determined to prevent and eliminate all fraud and corruption affecting itself, regardless of whether the source is internally or externally based. Our strategy to reduce fraud is based on deterrence, prevention, detection, investigation, sanctions and redress within an over-riding anti-fraud culture. We will promote this culture across all our service areas and within the community as a whole. One pound lost to fraud means one pound less for public services. Fraud is not acceptable and will not be tolerated".

2. PERFORMANCE SUMMARY FOR 2010/11

In 2010/11 Rotherham Brought Together (RBT), which administers the Benefits Service on the Council's behalf, recovered £2.45m in overpayments of Housing and Council Tax Benefits made as a result of fraud or error (£2.22m in 2009/10). The Council also received Government subsidy totalling £1.19m (£974k in 2009/10) as a result of the Council's identification of overpayments.

Any amounts recovered / claimed are used in delivering front line services for the benefit of residents of Rotherham.

There were over 8,880 benefits overpayments made in 2010/11. Most of these were not fraudulent. However, RBT completed investigations into 895 suspicious overpayment cases. The service obtained 25 successful prosecutions for Housing and Council Tax Benefit Fraud. RBT also issued 107 formal cautions and 84 administrative penalties.

Investigations of cases highlighted by the Audit Commission's 'National Fraud Initiative', led by the Council's Internal Audit Service, identified savings in excess of £249k.

109 Blue Badge Parking Permits were withdrawn as a result of validation checking against deceased persons' records and 19 successful prosecutions were made against fraudulent permit users.

There were no general cases exceeding £10,000 that needed to be reported to the Audit Commission in 2010/11.

3. THE COUNCIL'S ARRANGEMENTS FOR MANAGING THE RISK OF FRAUD & CORRUPTION

The Council's primary aim remains to stop fraud from occurring. We reported in 2008/09 that the Council had completed an overall review of its arrangements for managing the risk of fraud and corruption. This led to the production of an Anti-Fraud & Corruption Strategy, which included a number of practical measures to strengthen our arrangements in this regard. During 2009/10 and 2010/11 the Council implemented a number of measures from the Anti-Fraud and Corruption Strategy.

Implementation of the strategy involves all managers and officers although certain services have particular roles to play in the proactive prevention of fraud. These include Internal Audit, the Benefits Fraud Team which deals with Housing Benefit fraud, the Blue Badge Enforcement Team, Trading Standards and HR officers. All of these teams have a vital role to play in the deterrence, detection and investigation of fraud.

3.1 INTERNAL AUDIT

The Council's Internal Audit Team has a crucial role in helping the Council to deter, detect and investigate fraud and corruption. It performs the following functions:

- carries out an annual assessment of the areas most at risk of fraudulent activity
- performs reviews of the controls in place to prevent fraud and corruption in these areas on a cyclical basis and, where relevant, makes recommendations for strengthening existing arrangements
- advises managers about controls to be implemented in new systems or as a result of system changes
- drives the continual development of a framework of anti-fraud policies and procedures
- helps managers to investigate suspicious situations
- raises awareness of fraud risks and developing mechanisms to maximise the opportunities for fraud risk reporting
- responds to whistle blowing allegations, referrals and other concerns, including those received under the Council's Money Laundering Policy
- investigates reports of financial or other irregularity
- liaises with South Yorkshire Police to support criminal prosecutions.
- provides advice and support to managers across the Council and within schools in their own investigation of irregularities
- monitors and reports on anti-fraud activity across the Council.

In discharging this wide range of roles Internal Audit has a Lead Auditor for anti-fraud work. This officer has successfully completed the "CIPFA Certificate in Investigative Practice".

3.2 HOUSING AND COUNCIL TAX BENEFITS

Overpayments

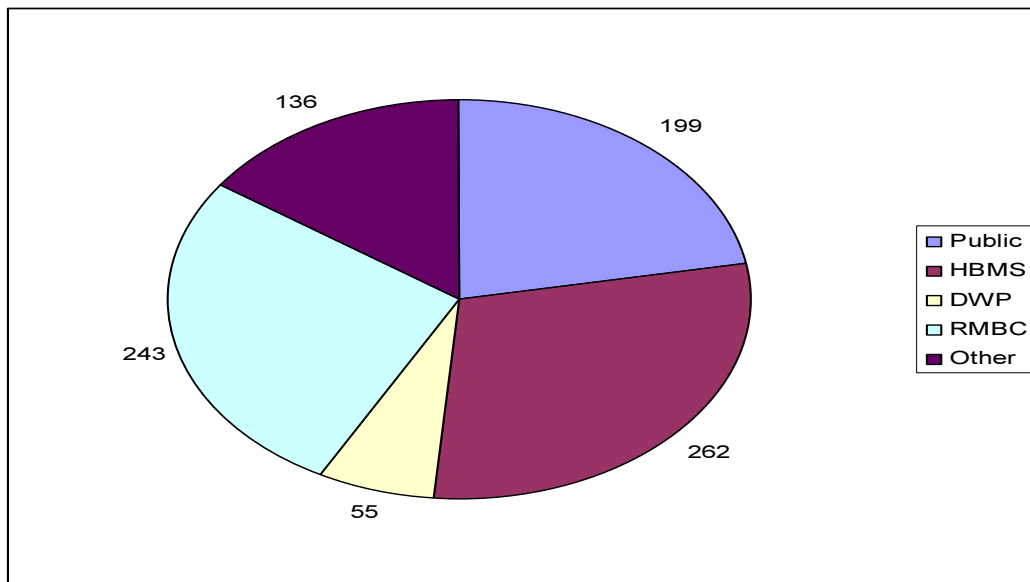
The Council recognises that many overpayments can and do occur as a result of errors made during the application process or later, if changes to any benefits entitlement are not properly or promptly identified. The Council does not pursue any formal sanctions against anyone innocently causing an overpayment by making a genuine error. The Council does, however, seek to recover any overpayments incurred, either by error or fraud.

Benefits Fraud

The Council has a Benefits Fraud Team, managed by RBT (a partnership company between the Council and BT), which comprises 6.5 FTEs, including 4.5 benefits fraud investigators. The Team investigates potentially fraudulent benefits claims received by the Authority.

The Team receives referrals from many sources. The Public, for example, referred 199 of the cases closed in 2010/11, with many referred through the Fraud Hotline. Referrals are also received from the Department for Work and Pensions (DWP) and the Housing Benefit Matching Service (HBMS). Chart 1 shows a breakdown of all 895 referrals where investigations were closed in 2010/11.

Chart 1: Source of referrals closed by Benefits Fraud Team in 2010/11



Source: RBT

As a result of its work, RBT:

- Recovered over £1.32m paid out in fraudulent or incorrect housing benefits claims.

- Recharged Council Tax payers £1.13m for overpayments of Council Tax benefits payments.
- Claimed Government subsidy totalling £1.19m as a result of the Council's identification of overpayments.

The proportion of 2010/11 overpayments recovered in the year by Rotherham Council was 53.47% (45% in 2009/10), exceeding our local performance target of 41%.

One example of a case investigated by the Benefits Fraud Team is provided below.

Case Study 1

An anonymous referral was received stating that a benefits claimant had been living with a partner as husband and wife and that the partner was in full time employment. The claimant was claiming benefits as a single parent.

Further investigation revealed that the claimant had fraudulently claimed over £30,000 in benefits to which she was not entitled. The case was heard in Sheffield Crown Court where the claimant was given a 6 month custodial sentence suspended for 2 years and also ordered to carry out 150 hours community service.

The performance of the Benefits Fraud Team is also partly measured in terms of the number of sanctions *¹ achieved in the year. The Team's target for 2010/11 was to achieve 125 sanctions for the year. Actual performance was 216 sanctions. Results over the last five years show how the service has improved its performance, see Table 1.

Table 1: The Number of sanctions achieved by the Housing Benefits Fraud Team – 2006/7 to 2010/11

Year	Formal Cautions	Administrative Penalties	Successful Prosecutions	Total Sanctions
2006/07	27	69	19	115
2007/08	52	48	25	125
2008/09	48	56	36	140
2009/10	68	80	36	182
2010/11	107	84	25	216

Housing Benefit Matching Service

During 2010/11 the service received 863 referrals from the Department for Work & Pensions (DWP) 'Housing Benefit Matching Service' which cross-matches and highlights discrepancies between DWP and RMBC records. On investigation of these referrals, 110 cases resulted in Housing Benefit Overpayments (totalling £127,637) and 130 cases resulted in Council Tax Benefit Overpayments (totalling £39,251). A total of 321 cases were referred to the Fraud Section.

¹ A sanction can be a formal criminal prosecution, a formal caution or an administrative penalty

3.3 NATIONAL FRAUD INITIATIVE

Background

The National Fraud Initiative (NFI), run by the Audit Commission, matches electronic data within and between public sector organisations to highlight potentially fraudulent activity. Organisations participating include police authorities, insurance brokers, the student loan authority, local probation boards, pension authorities and fire and rescue authorities, as well as local councils.

The initiative works by comparing different sets of data, like payroll and housing benefits records, and flagging unusual combinations such as any person claiming housing benefits from more than one local authority or any person claiming housing benefits while failing to disclose his/her employment ^{*2}.

The organisations taking part receive a report on these potentially unusual matches, which they can then investigate to determine the existence of any fraud or error.

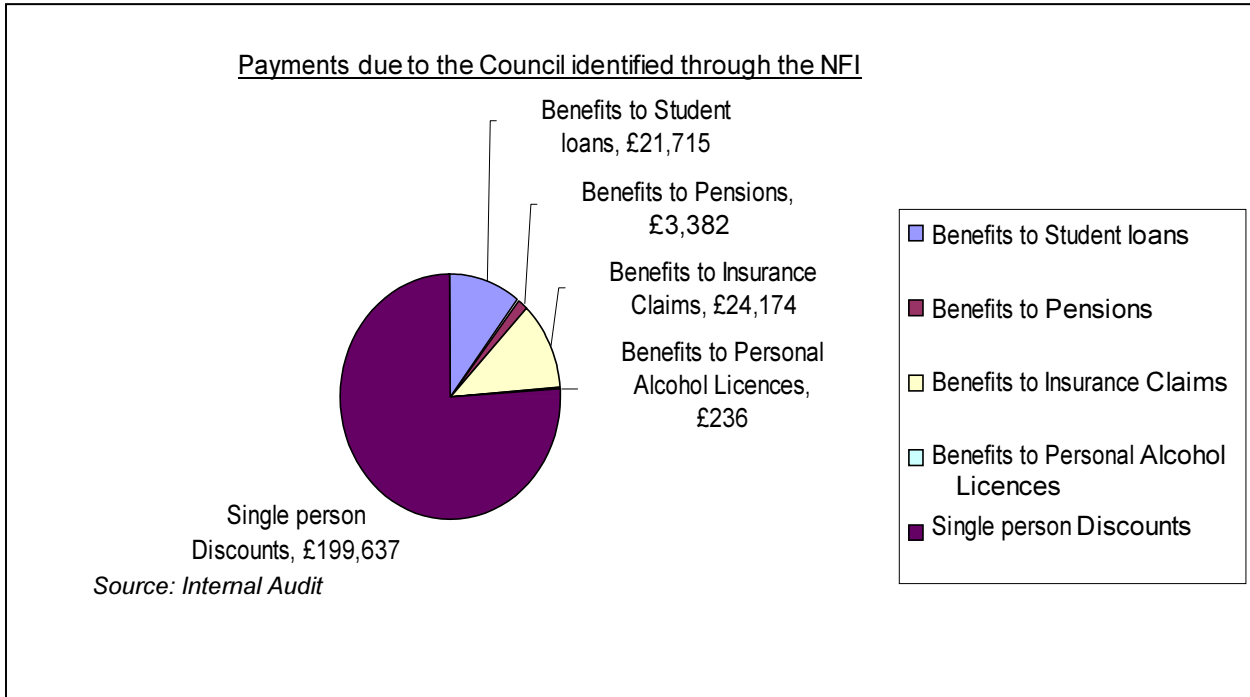
To date the NFI exercise has identified over £600m nationally in fraud and overpayments.

RMBC results

The Council found £249,144 from the most recent matching exercise investigated in 2009/10 and 2010/11. This was made up of false Benefits claims (£49,507) and Council Tax Single Person Discounts (£199,637). See Chart 2 below.

² The use of data for NFI purposes continues to be controlled to ensure compliance with data protection and human rights legislation

Chart 2: Cumulative payments due to the Council identified through the NFI 2008/09



Case Study 2, below, shows an example of a case concluded following investigation of an NFI report.

Case Study 2

Rotherham Metropolitan Borough Council's Benefits Fraud Unit received a referral via the Audit Commission's National Fraud Initiative which indicated that there was a possibility a tenant had a partner living with her at her home address. The tenant declared no partner living with her when claiming Housing Benefit, Council Tax Benefit and Income Support.

Further work revealed the tenant did in fact have a partner residing at the property and that she had fraudulently claimed in excess of £29,000. The Judge sentenced the tenant to a maximum 6 months prescribed curfew order.

The Audit Commission has recently commended the Council for its performance in responding to the NFI. In an email received in March 2011 the Audit Commission stated:

"We have recently conducted a review to establish the progress councils have made with these NFI reports and we are delighted to see that the NFI web application is showing encouraging results for your council".

Blue Badges

During the year a first matching report was provided under the NFI comparing blue badge holders with register of deaths information. Following investigations the Council removed 109 Blue Badge Parking Permits that were still being held by relatives or associates of deceased persons.

In addition the Blue Badge Enforcement Team uncovered a number of other fraudulent users of permits and made 19 successful prosecutions (15 cases of drivers using a disabled person's blue badge without the blue badge holder being present and 4 found guilty of using a disabled person's blue badge when the holder had deceased).

NFI 2010/11

The NFI 2010/11 exercise is now under way. Matches will be investigated throughout 2011 and 2012.

4 KEY PRIORITIES FOR 2011/12

The Council's anti-fraud priorities for 2011/12 will include:

- Continued participation in the National Fraud Initiative
- Specific fraud related reviews relating to housing tenancy, expenses and care providers
- Developing further the Fraud Strategy
- Specifically addressing the implications of the Bribery Act 2010 and incorporating the latter into the Council's Fraud and Corruption agenda

- Training, advice and guidance which will encompass:
 - Raising awareness - Supporting the Council to improve levels of awareness of fraud risks amongst managers, staff and partners
 - Effective communication of Council policy, procedures and codes relating to anti-fraud, including the new Bribery Act
 - Fraud risk assessment - Update of fraud risk assessments and a fraud risk register to focus resources on potential vulnerabilities
 - Liaison with other neighbouring Councils in developing good practice.

The Council, with RBT, will implement new procedures for checking and validating Single Persons Council Tax Discount claims, using a new independent service that checks Council information against credit applications. It is anticipated that this will significantly prevent the occurrence of single persons' discounts frauds.

In 2010/11 The National Fraud Authority established a Counter Fraud Strategy Forum. The Forum will help tackle fraud in central and local government and is developing a new strategy entitled 'fighting fraud locally' to tackle fraud in local government. This strategy is supported by the Audit Commission, CIPFA, Communities and Local Government and other bodies previously engaged in providing support in the fight against fraud. We will adopt relevant aspects of the strategy when it is finalised.

5 REPORTING YOUR CONCERNS

If you do have any concerns report your suspicions as quickly as possible together with the relevant details. You can report any concerns to the Internal Audit Service on Rotherham 382121 Ext. 23297 / Ext. 23293 or the Senior Manager Legal and Electoral Services on Ext. 23553.

Alternatively you may prefer to put your suspicions in writing to the Director of Internal Audit and Governance, Financial Services, Council Offices, Doncaster Gate, Doncaster Road, Rotherham, South Yorkshire, S65 1DW and mark the envelope "CONFIDENTIAL — TO BE OPENED BY THE ADDRESSEE ONLY".

The Council would prefer you not to provide information anonymously as any subsequent investigation could be compromised if we cannot contact you to help gain a full understanding of the issues. However, we will still consider anonymous information that is received.

All reported suspicions will be dealt with sensitively and confidentially.

If you wish to report any suspicions in relation to Benefit Fraud ring for free on the Fraud Hotline 0800 028 2080

ROTHERHAM METROPOLITAN BOROUGH COUNCIL

1. Meeting:	Audit Committee
2. Date:	20th July
3. Title:	Audit and Inspection Recommendations Update Report
4. Directorate:	Chief's Executive Department

5. Summary

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

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 (August 2010). A summary of the full inspection profile since 2007 is detailed within the table in Appendix A. In summary;-

Since the last report there have been 5 new inspections and external assessments resulting in 25 new recommendations. The inspections and external assessments were;

- CQC Adult Social Care (NAS)
- Customer Service Excellence (CEX)
- Core Case Inspection Youth Offending (CYPS)
- Adoptions Services (CYPS)
- Contact, Referral and Assessments Services (CYPS)

Including the ones above there have been a total of 339 recommendations since 2007. Of these;

- 311 have been completed (92%). Of these 40 have been completed since the last audit and inspection report in August 2010 (13%)
- 28 remain outstanding (8%). Of these 18 are related to new inspections and assessments.

6. Recommendations

That the Audit Committee:

- **Note the progress achieved against outstanding actions**
- **Note the actions detailed in the exception reporting on the outstanding recommendations**
- **Advice further actions as necessary**

7. Proposals and Details

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 August 2010 report progress against recommendations is good. This has resulted in a number of action plans being signed off as complete as either all recommendations have been implemented or subsequent inspections have assessed that there is no need to progress the issues of concern further. Subsequently future audit and inspection reports and associated appendices will omit their details. These are;

- Waste Management
- Joint Service Centres
- Customer Service Excellence 2009
- Local Authority Adoption Inspection (January 2008)
- Local Authority Fostering Inspection (June 2008)
- Private Fostering Inspection (June 2008)
- Integrating Services for CYP (February 2009)
- Adult and Family Learning Monitoring Review (April 2009)
- Review of Children's Services (April 2009)
- Local Authority Fostering Inspection (June 2009)
- Unannounced inspection of contact, referral and assessment arrangements (August 2009)
- Local Authority Fostering inspection (June 2010)

In addition to the above, following recognition by the Department for Education (DfE) of the significant progress made in Children's Services the Notice to Improve was lifted in January 2011 and CYPS were taken out of intervention. The monitoring of progress will now be managed by the Children's Improvement Panel.

Analysis of outstanding recommendations

Progress against all outstanding audit and inspection recommendations of council services are monitored by Performance & Quality Teams. Currently there are 29 recommendations which still need addressing. The table below highlights these recommendations on an exception basis where progress is of potential concern and may require attention, immediate action or further scrutiny.

Inspection	Area for Action
Maltby Joint Service Centre - Service and Performance (CEX & Finance)	<p>No update has been provided on 5 of the 6 recommendations in this report as these have been assigned to Duncan Smales, NHS Rotherham. However as the recommendations relate to joint working between NHS Rotherham and the Council therefore monitoring will be incorporated into the council's reporting regime also.</p> <p>Action: Discussions to be held with NHS Rotherham place to ensure that these recommendations are incorporated in to this reporting regime.</p>

Inspection	Area for Action
<p>Annual Performance Assessment 2008</p> <p>And Notice to Improve 2010 (CYPS)</p>	<p><i>R5 – Key Stage 2 standards remain below similar Councils and the national average. The rate of progress being achieved in primary schools is not keeping pace with similar councils</i></p> <p>Although improvements have been demonstrated within other education standards Rotherham continues to have systemic underperformance at Key Stage 2.</p> <p>Central Government financial and policy shifts have resulted in a reduced School Effectiveness Service (SES) and a redefining of the authorities' core remit and relationship with schools adding further challenges to this agenda.</p> <p>Action: SES are continuing to work intensively with the most vulnerable schools and has established a 'school improvement' settlement which is increasingly led, staffed and resourced by schools themselves – Rotherham School Improvement Partnership. School projections of KS2 outcomes are positive for 2011 and provisional results are available mid-July. DfE have now introduced an Early Action Area strategy for the 4 South Yorkshire LAs; a Rotherham Improvement Plan has been submitted and is awaiting approval by government.</p>
<p>Notice to Improve (CYPS)</p> <p><i>NB. Central Government have now lifted the Ntl however progress continues to be internally monitored by the Children's Improvement Panel</i></p>	<p><i>R2 – NI59) Increase the % of initial assessments for children's social care carried out within 7 working days of referral to 85% by the end of October 2010</i></p> <p>The 2010/11 outturn figure has provisionally been reported as 82.4% subject to validation. Whilst not hitting the stretched target imposed by the Notice to Improve, we have by far exceeded both the statistical neighbour and national averages.</p> <p>For the new reporting year, quarter one performance has dropped significantly to 76.7%. This drop was highlighted early in the quarter through improved performance management and resulted in a service redesign which commenced in May and current figures up to 12/07/2011 show a slight improvement to 77.2%.</p> <p><i>R2 – NI60) Increase the % of core assessments for children's social care carried out within 35 working days of their commencement to 87% by end of March 2011</i></p> <p>The 2010/11 outturn figure has been provisionally reported as 80% subject to validation. Whilst performance dipped in quarters 3 and 4 and the target has not been met, we still exceeded both statistical neighbour and national averages.</p> <p>For the new reporting year, quarter one performance has dropped significantly to 65.5% and work is ongoing with the teams to highlight reasons for underperformance and target improvement and current performance to 12/07/2011 shows a very slight improvement to 65.6%.</p> <p>Extensive actions have been taken to clear the backlog of assessments from 2010/11 which has had a detrimental affect on current in year performance. This work is now complete. A dedicated duty referral and assessment team has proven successful in the resource intensive Central Locality Team and will now be rolled out across the borough.</p> <p>Action: Dedicated duty referral and assessment teams to be implemented across the borough by end of 2011.</p>

Inspection	Area for Action
	<p><i>R18 - Implement the council's supervision policy so that all social workers receive supervision in line with the council's policy</i></p> <p>Four Social Work Practice Consultants (Field work) were appointed and started with the authority on June 6th. They are based with the fieldwork teams and have a brief to work specifically with NQSWs. NQSWs, as reported nationally, cite lack of support, supervision and high caseloads as a major stress factor. The SWPCs will be responsible for mentoring, guiding and supporting those staff. Development of skills, knowledge and competency of the NQSWs will improve the quality of service to the children for whom we provide service. Provision of accessible, consistent support to this group of staff should improve retention and ensure that staff have a higher level of competency and confidence in their skills. Additionally the pressure on field work team managers will be alleviated thus allowing them time to meet other essential priorities.</p> <p>Whilst progress has been noted in the frequency of supervision of social workers, the nature and quality of supervision has been identified as an area for development. Following the recent unannounced Ofsted Inspection which noted "the regularity and quality of formal supervision is variable and at times poor" this is clearly an area requiring attention. A new mandatory training programme for managers/supervisors has been introduced supported by a revised supervision policy. The focus of this training will be reflective, evidence based casework management. Monthly Action Learning Sets for Team Managers are also now scheduled, these are a new initiative and will be facilitated by Workforce Planning and Development. The Action Learning Sets will focus on areas for development as identified by the team managers themselves, Senior Managers and any issues identified by external bodies such as Ofsted, Serious Case Reviews and the Munro report.</p> <p>Action: Embed revised supervision policy Monitor training programme on action learning sets Introduce new supervision audit tool</p>
<p>Safeguarding & Looked After Children - 2009 (CYPS)</p>	<p><i>R5 - Improve the quality of social care supervision so that staff receive the right level of challenge, development and support.</i></p> <p>Briefing/training sessions held for Team Managers on quality supervision. Random audits take place by Director of Safeguarding and Corporate Parenting and senior management team. Personal supervision and case work supervision included in re-launched supervision policy. It is important that we continue to ensure that this is fully embedded across the service. Team manager supervision training sessions have been set up and are running on 27th and 28th June 2011.</p> <p><i>R9 - Develop the independent visiting service to ensure that all eligible children are able to have access to an independent visitor.</i></p> <p>There has been some drop out from the scheme mainly due to personal reasons or maternity issues. There are two ongoing matches and nine still in training with a further five in selection.</p> <p>The full implementation of the scheme is challenging due to the limited capacity of the children's rights officer.</p>

Inspection	Area for Action
	Action: A service review is to be commenced with a view to recommissioning in the VCS

New Inspection Reports received

There have been four new inspection judgements received since the last report. All these inspections have demonstrated an improvement on the previous judgements. A brief summary of their outcomes are below:

▪ **CQC Adult Social Care**

Out of seven areas of assessment four were rated as 'performing excellently' with the remaining three being rated as 'performing well'. Overall the quality of services were graded 'Performing excellently'

▪ **Customer Service Excellence**

'Continuous compliance' was achieved following the first annual corporate certification review. Assessors gave a 'compliance plus' (area of best practice) for arrangements with other providers and partners to offer and supply co-ordinated services; demonstrating benefits for customers. Areas for development include a corporate overview of customer satisfaction testing across the Council, improved target setting for customer satisfaction and consistently demonstrating the commitment to developing and delivering customer focused services through recruitment, training and development for staff.

▪ **Core Case Inspection Youth Offending Service (CYPS)**

No overall grade is given assessment is against three key areas of work; "Safeguarding", "Risk of Harm to Others" and "Likelihood of Reoffending". Inspectors consider their findings 'encouraging' with moderate improvements required in work related to Safeguarding and Risk of Harm to Others and only minimal improvement to Likelihood of Reoffending. Good work was highlighted regarding exit planning, community integration, the delivery of interventions and engagement with children and young people resulting in positive outcomes.

▪ **Adoption Service**

The service has retained its overall quality rating of "good". Ofsted stated that the service operates to a good standard in most of its undertakings and demonstrates excellence in others. There are few of the agency's practices that fail to meet standards. Key strengths within the report are; - a strong approach to recruiting and assessing prospective adopters, Adoption support which continues to improve, outstanding help for children to achieve well and enjoy what they do and the commitment and management of the service.

▪ **Unannounced inspection of contact, referral and assessment arrangements**

No overall grade is given in this inspection but this year's inspection report reflects the improvements which have been made to the service. Ofsted found no areas for priority action (a prerequisite for an inadequate Children's Service Assessment and notice to improve), only four areas for development and also highlighted an area of strength relating to the professional development of the social care workforce. This is a good result for Rotherham as it was the previous unannounced inspection which led to Government Intervention.

Forthcoming Inspection Activity

The following services are due inspections within the next six months:

- Food Standards Agency Audit (NAS)
- Fostering Services (CYPS)
- Adult and Community Learning (CYPS)
- Children's Services Assessment 2011 (CYPS)
- Customer Service Excellence – Continuous Appliance Assessment November 2011 (CEX)

Performance and Quality Teams are supporting the services with their preparations for these assessments and inspections.

8. Risks and uncertainties

Risks and uncertainties are highlighted in the table 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.

However inspections still feature heavily within Children and Young People's Services and their associated external providers, over 540 settings will continue to be inspected (for example; schools, colleges, independent childminders) and each authority will receive an overall Children's Services Assessment score for 2011. Ofsted are currently reviewing the inspection frameworks and minimum standards across its entire remit with a view to reduce costs and burdens, and refocus on key priorities.

In addition Government is developing proposals for a new local audit regime with the Audit Commission, the National Audit Office, the Financial Reporting Council, Local Government Audit Firms and other interested parties. Consultation on the details of a new audit Framework completed on 30th June 2011 and the Government envisages that it may subsequently publish a draft Bill for pre-legislative scrutiny ahead of the final introduction of legislation to parliament. The Government has stated that reforms to the local audit regime are likely to take effect from 2012/13.

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

Contact Names:

Lorna Kelly, Performance Officer, ext 22901
Deborah Johnson, Performance Officer, ext 22666

Full Inspection & Audit Profile from 2007 to Present

[APPENDIX A]

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	STATUS
Chief Executive & Financial Services						
Review of Local Area Agreements (2007)	KPMG	10	10	N/A	0	Complete
Use of Resources Judgement (2007)	KPMG	9	9	N/A	0	Complete
Addressing Health Inequalities (Jan 09)	AC	10	9	0	1	Ongoing
Use of Resources Judgement 2008	KPMG	16	16	N/A	0	Complete
EMQC Corporate Report (July 09)	EMQC	16	11	5	0	Complete
Use of Resources 09 (September 09)	KPMG	2	1	0	1	Ongoing
Review of Internal Audit (March 2010)	KPMG	3	3	N/A	0	Complete
Maltby and Aston Joint Service Centre - Financial Arrangements	KPMG	5	5	N/A	0	Complete
Maltby Joint Service Centre - Service and Performance	KPMG	6	1	5	0	Complete
Customer Service Excellence (January 2011)	EMQC	7	N/A	0	7	New Ongoing
Environment and Development Services						
Waste Management (September 07)	KPMG	19	16	3	0	Complete
Neighbourhoods and Adults Services						
ALMO (November 08) * including 5 recs. from previous inspection ** including 1 rec. which is now tracked via liaison meetings	AC	*35	**34	0	1	Ongoing
PDSI / Safeguarding Inspection (June 09)	CQC	20	20	N/A	0	Complete
Adult Social Care Annual Assessment 2009 (November 09)	CQC	13	13	N/A	0	Complete
Adult Social Care Annual Assessment 2010 (October 10)	CQC	3	N/A	0	3	New Ongoing
Children's Services						
Local Authority Adoption (Jan 2008)	Ofsted	17	16	1	0	Complete
Local Authority Fostering Inspection (June 08)	Ofsted	22	22	N/A	0	Complete
Private Fostering (June 08)	Ofsted	2	2	N/A	0	Complete
Annual Performance Assessment (December 08)	Ofsted	10	9	0	1	Area of Concern
Fostering Monitoring (January 09)	Ofsted	7	7	N/A	0	Complete
Adult and Family Learning Monitoring Review (April 09)	Ofsted	2	2	N/A	0	Complete
Review of Children's Services (April 2009)	Children's First	36	36	N/A	0	Complete
Fostering Inspection (June 09)	Ofsted	5	5	N/A	0	Complete
Unannounced inspection of contact, referral and assessment arrangements (August 2009)	Ofsted	8	7	1	0	Complete
Notice to Improve (December 09)	Ofsted	22	17	1	4	Areas of Concern
Local Authority Fostering (June 2010)	Ofsted	9	N/A	9	0	Complete
Safeguarding / Looked After Children (July / August 2010)	Ofsted	10	N/A	8	2	Area of Concern
Core Case Inspection - Youth Offending Service	Youth Justice	7	N/A	5	2	New Ongoing
Local Authority Adoption (Jan 2011)	Ofsted	4	N/A	2	2	New Ongoing
Unannounced inspection of contact, referral and assessment arrangements (May 2011)	Ofsted	4	N/A	0	4	New Ongoing
Total Recommendations		339	271	40	28	

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS
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1.	Meeting:	Audit Committee
2.	Date:	20th July 2011
3.	Title:	KPMG Interim External Audit Report
4.	Directorate:	Financial Services

5. Summary

This report refers to the outcomes from KPMG's 2010/11 interim external audit work.

The scope of KPMG's work included:

- A review of the Council's general Control Environment, including its ICT systems;
- An assessment of the Council's Internal Audit function;
- Testing certain key controls over the Council's key financial systems;
- A review of the Council's accounts production process including work to restate the 2009/10 financial statements to be International Financial Reporting Standards (IFRS) compliant; and
- An assessment of the Council's financial resilience as part of its VFM Conclusion work.

The outcome of KPMG's interim audit report is a **very positive one**, with only 3 recommendations for improvement being made in relation to improving ICT access and password security control and risk management. **None of the recommendations** (according to KPMG) are of a 'high priority' status that require immediate action.

6. Recommendation

Audit Committee is asked to note the findings and recommendations presented in KPMG's interim external audit report

7. Proposals and Details

Attached at **Appendix A** is KPMG's interim external audit report for the financial year 2010/11. Overall, the report is **very positive** and demonstrates the Council's continued commitment to ensuring that it has in place a strong and robust control environment for doing and managing its business in a proper and appropriate way that meets professional standards.

In addition, this year, KPMG have also continued to review the Council's approach to **implementing IFRS** and assessing how **financially resilient** the Council is to meet the financial challenges facing local government over the next few years. **Once again, a positive conclusion has been reached in both areas.**

KPMG will finalise their work on the Council's transition to IFRS when they undertake the audit of the Council's 2010/11 Financial Statements. This work is expected to be concluded in September with an Unqualified Audit Opinion.

KPMG will continue to monitor the financial resilience of the Council in achieving significant and unprecedented financial savings in order to achieve its Medium Term Financial Strategy that supports the Council's Corporate Plan priorities.

The report identifies how each of the recommendations will be concluded over the next period.

The Audit Committee is asked to note the findings and recommendations presented in KPMG's interim external audit report.

8. Finance

There are no financial implications arising from this report.

9. Risks and Uncertainties

Failure to maintain robust control over the Council's Control Environment and its fundamental financial systems increases the risk of errors and potential loss and will adversely affect the Council's reputation.

10. Policy and Performance Agenda Implications

Maintenance of sound internal controls contributes to good governance.

11. Background Papers and Consultation

KPMG Interim External Audit Report – Appendix A

Contact Names:

Stuart Booth, Director of Finance, x2034, stuart.booth@rotherham.gov.uk



cutting through complexity™

Interim Audit Report 2010/11

**Rotherham Metropolitan Borough
Council**

July 2011



The contacts at KPMG in connection with this report are:

Steve Clark

Director

KPMG LLP (UK)

Mob: 07876 390 524

stephen.clark@kpmg.co.uk

Alison Ormston

Senior Manager

KPMG LLP (UK)

Tel: 07833 400 887

alison.ormston@kpmg.co.uk

Rob Mitchell

Assistant Manager

KPMG LLP (UK)

Tel: 0113 231 3356

robert.mitchell3@kpmg.co.uk

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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.auditcommission.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 stephen.clark@kpmg.co.uk, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is 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. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

This document summarises the key findings arising from our work to date in relation to both the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

Scope of this report

This report summarises the key findings arising from:

- our interim audit work at Rotherham Metropolitan Borough Council (the Authority) in relation to the 2010/11 financial statements; and
- our work to support our 2010/11 value for money (VFM) conclusion up to April 2011.

Financial statements

Our *Financial Statements Audit Plan 2010/11*, presented to you in January 2011, set out the four stages of our financial statements audit process.



During January to April 2011 we completed our planning and control evaluation work. This covered our:

- review of the Authority's general control environment, including the Authority's IT systems;
- testing of certain controls over the Authority's key financial systems with the help of internal audit;
- assessment of the internal audit function;
- review of the Authority's accounts production process, including work to address prior year audit recommendations and the specific risk areas we have identified for this year; and
- review of the Authority's work to restate the 2009/10 financial statements under International Financial Reporting Standards (IFRS).

VFM conclusion

Our *VFM Audit Plan 2010/11* issued in March 2011 described the new VFM audit approach introduced this year by the Audit Commission and highlighted the key changes compared to the previous Use of Resources auditor's scored judgements regime.

We have completed some early work to support our 2010/11 VFM conclusion. This included:

- undertaking a preliminary VFM audit risk assessment; and
- initial work to assess the Authority's financial resilience following the funding settlement for 2011-13.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our interim audit work in relation to the 2010/11 financial statements.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix A. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix B.

Acknowledgements

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

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

<p>Organisational and IT control environment</p>	<p>We have reviewed the operation of your organisational control environment and have concluded that these are effective overall, with one area which we have identified as a performance improvement opportunity. We have also found your IT control environment to be effective overall and here have raised two recommendations which are detailed in Appendix A.</p> <p>Organisational Control Environment</p> <p>With specific regard to your organisational controls we have deemed these to be effective overall, with one area which we have identified as a performance improvement opportunity. This relates to the risk appetite of the Authority.</p> <p>Risk appetite is a concept widely considered within the private sector however it is not widely recognised or used within the Public Sector. To be in line with best practice the Authority should document and formally consider risk appetite as part of their risk management process.</p> <p>Recently the Authority have presented a paper on this to the Senior Leadership Team and so if formally accepted this process would be improved if appetite to risk exposure was considered and monitored. With reduced resource to monitor controlled risk the benefits of documenting and considering risk appetite would be that the Authority was more focused in its approach to risk management. Detailed assessment of the Authority's risk appetite would mean that historic areas of focus may now fall within an acceptable risk tolerance and would require little or limited review.</p> <p>IT Control Environment</p> <p>We found your IT control environment to be effective overall. There are however a number of observations which we have made which we have summarised into two recommendations, these are detailed in Appendix A and relate to IT access controls and IT password security.</p> <ul style="list-style-type: none"> ■ IT Access Controls – We have identified a number of instances where user access controls are not operating effectively. There is no periodic review of user access rights across the Northgate, CedAr and PSe systems. This presents a risk that users may continue to have higher levels of access than necessary for their job role which was observed on CedAr. Within the CedAr and Radius systems we found active accounts which belonged to staff no longer employed by the Authority and in a small number of cases verbal authority was sufficient to gain access to the Pse system. ■ IT password security - Strong IT passwords are deemed to be those that include a mixture of alpha numeric and character based symbols. Radius and Northgate systems did not meet the definition of a 'strong' password creating a risk of unauthorised access to data.
<p>Controls over key financial systems</p>	<p>We have completed our controls testing through placing substantial reliance upon the work of Internal Audit therefore have not duplicated recommendations in this section that have previously reported upon by Internal Audit.</p> <p>We would also like to highlight that the scope of our controls work was limited in relation to capital due to timing issues of when these controls occur. These areas will therefore be completed during our final audit visit.</p>
<p>Review of internal audit</p>	<p>We were able to place reliance on Internal Audit's work on the key financial systems and are satisfied that they are compliant with the <i>Code of Practice for Internal Audit in Local Government</i>.</p>

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

<p>IFRS restatement</p>	<p>We will issue our audit opinion on the 2010/11 accounts at the September Audit Committee after our final audit work has been completed on both the 2009/10 restatement and the 2010/11 accounts. As at the date of our interim visit, the Authority had completed its restatement of the 2009/10 financial statements under IFRS with the exception of two areas as shown below. However, whilst we have not reviewed these areas during our interim visit these areas will be addressed by the Authority in time for the July Audit Committee and we will review this work before issuing our audit opinion at the September Audit Committee.</p> <ul style="list-style-type: none"> ■ The restated balances for 2009/10 for property, plant and equipment, impairment of assets, and investment property are still outstanding due to delays by CIPFA in releasing the updates for the IPF assets software. ■ The disclosure notes for related parties, segmental reporting, and leases are in the process of being produced as part of the close down procedure, so will be reviewed by during our year end testing. <p>Throughout the conversion to IFRS the Authority have taken a proactive approach and involved us in early discussions which has lead to a smooth transition. During the course of our IFRS conversion testing we identified two minor adjustments that were required:</p> <ul style="list-style-type: none"> ■ Provisions - A balance of £500k had been missed off the 2009/10 adjustment in error. ■ Cash & Cash Equivalents - An adjustment was made to the classification of cash and cash equivalents, with all fixed term deposits being classified as investments rather than a mixture of cash equivalents and investments.
<p>VFM - Financial resilience</p>	<p>We have reviewed the Authority's response to the emergency budget and its budget strategy for 2011/12, as well as the process followed to arrive at these.</p> <p>Emergency Budget 2010/11</p> <p>The Authority positively responded to the Government's emergency budget (May 2010) which reduced its in year revenue and capital funding by £5m each. Through early planning, taking a calm and measured approach and having an inclusive approach the Authority identified saving proposals to mostly mitigate the in year resources gap supplemented by a £0.6m planned use of generally available reserves. The revised budget was approved by Cabinet in November 2010.</p> <p>The Authority's year end financial performance achieved a £1.9m underspend with revised budget which is testament to the recognition by the Authority that not only did it need to face up to the short term financial challenge but also the unprecedented, difficult medium term financial climate facing local government as confirmed in the Comprehensive Spending Review (October 2010).</p> <p>Financial Settlement 2011/12</p> <p>The Authority's final settlement for 2011/12 resulted in a reduction in formula grant by £16.2m or 11.6 percent to £123.2m. The withdrawal of central government funding and grant allocations to local government resulted in the Authority facing a £30.3m resources gap in 2011/12.</p> <p>The Authority, in setting about bridging the resources gap, identified a clear set of principles for considering budget saving proposals. By adopting a measured approach the Authority was able to protect services for those most in need while delivering a balanced budget without a planned use of available reserves.</p> <p>Throughout the budget setting process Cabinet Members' involvement was integral and opportunities for scrutiny were provided</p>

Your organisational control environment is effective overall.

Work completed

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

In previous years we used our work on the Use of Resources assessment to inform our findings in these areas. Due to the reduced scope of the VFM assessment we have to complete more specific work to support our financial statements opinion.

We obtain an understanding of the Authority’s overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

Key findings

We consider that your organisational controls are effective overall, with one area which we deem to have performance improvement opportunity.

Risk Management

Risk appetite is a concept widely considered within the private sector however it is not widely recognised or used within the Public Sector. To be in line with best practice the Authority should document and formally consider risk appetite as part of their risk management process.

Recently the Authority have presented a paper on this to the Senior Leadership Team and so if formally accepted this process would be improved if appetite to risk exposure was considered and monitored. With reduced resource to monitor controlled risk the benefits of documenting and considering risk appetite would be that the Authority was more focused in its approach to risk management. Detailed assessment of the Authority’s risk appetite would mean that historic areas of focus may now fall within an acceptable risk tolerance and would require little or limited review. This would require framing risk appetite and documenting as part of the risk registers.

Aspect	Assessment
Organisational structure	● [G]
Integrity and ethical values	● [G]
Philosophy and operating style	● [G]
Participation of those charged with governance	● [G]
Human resource policies and practices	● [G]
Risk assessment process	● [G]
Information systems relevant to financial reporting	● [G]
Communication	● [G]
Monitoring	● [G]

Key: ● (red) Significant gaps in the control environment.
 ● (amber) Minor deficiencies in respect of individual controls.
 ● (green) Generally sound control environment.

Your IT control environment is effective overall however we noted a number of areas for further improvement.

Work completed

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

Testing of these areas has been completed by our IT specialists, who looked at the IT controls for the core financial systems. The table below highlights our assessment of the key IT controls across all core systems:

	CedAr	Northgate	Radius	PSe
Access configuration – Access levels have been defined based upon established business rules and job roles for assigning user rights within each of the in-scope applications.	● [G]	● [G]	● [G]	● [G]
Access administration – Appropriate administration processes are in place for allowing and revoking access.	● {A}	● [G]	● [A]	● [A]
Identification and authorisation – Unique, password controlled accounts exist for all users.	● [A]	● [A]	● [A]	● [G]
Access monitoring – Review of user access rights is carried out on a regular basis to identify dormant accounts and inappropriate levels of access.	● [A]	● [A]	● [A]	● [A]
Super user access - System administrator level privileges within the in-scope applications are restricted to only the system owners or IT staff responsible for management of the systems. Such highly privileged access is adequately controlled.	● [G]	● [A]	● [G]	● [G]
Program change - Changes to the in-scope applications require business and technical approval prior to implementation. Changes to the in-scope applications are tested in the test environment by the technical teams and business users and signed off.	● [G]	● [G]	● [G]	● [G]
Computer operations - Interfaces and batch jobs are monitored by the system administrators through regular manual checks and automated system alerts of job failures. Any errors noted are investigated and resolved.	● [G]	● [G]	● [G]	● [G]

Key:

- Significant gaps in the control environment.
- Minor deficiencies in respect of individual controls.
- Generally sound control environment.

Key findings

We found your IT control environment to be effective overall, however there are two recommendations. Recommendations can be found in Appendix A however we have highlighted the key detailed issues into four areas.

The control weakness that we observed related to:

(I) Radius / CedAr Access Controls

- We observed eight Radius and three CedAr user accounts that were still active despite the employees having left the Authority. For the three CedAr accounts these had all been accessed after the actual employee had left the Authority;
- Whilst there was no indication that Radius accounts had been accessed or that the CedAr accounts had been inappropriately used it does expose the Authority to the risk of unauthorised access;
- This issue would be rectified through integrating the HR and IT leaver controls and ensuring accounts are closed immediately upon a staff member leaving the Authority.

(II) PSe Access Administration

- Users are given access to the PSe system on the verbal authorisation of a team leader. The Authority procedure is for all system authorisation to be documented;
- There is a risk that access rights are given to staff without need or training which could lead to error in postings made to the system however we observed no evidence that this had happened;
- The authorisation process should be reinforced for all IT systems.

(III) Access Monitoring

- There is no periodic review of user access rights across the Northgate and CedAr systems;
- This presents a risk that users may continue to have higher levels of access than necessary for their job role which was observed for the CedAr system;
- The Authority would benefit from monitoring access rights to ensure that staff have appropriate need and training for the systems they use.

(IV) Radius / Northgate Password Strength

- The password parameters for both Radius and Northgate were not in line with best practise as 'strong', presenting a risk of unauthorised access to data.
- A 'strong' password would include a mixture of alpha numeric and character based symbols, for example capital / lower case mix, etc.

The majority of these observations are linked to system access which becomes more pertinent in the context of the substantial restructuring activity throughout the Authority. There would be benefit from the Authority reviewing its system of internal control around the IT systems to ensure that they are still relevant to a streamlined organisation.

The controls over the majority of the key financial system are generally sound.

However, there are some minor weaknesses in respect of NNDR, non-pay expenditure and benefits expenditure.

Work completed

We work with your internal auditors to update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. 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.

Key findings

The controls over the majority of the they key financial system are generally sound but we noted some weaknesses in respect of individual financial systems.

- NNDR: The quarter one Rateable Values Changes exception report did not show sufficient evidence that the exceptions had been addressed in a timely manner however this had been addressed in future periods.
- Benefits Expenditure: There is no evidence of timely preparation and review on the reconciliations between CedAr (General Ledger) and Northgate (Benefits System). Whilst we were able to re-perform the tests and confirm that the control is operating effectively, the Authority would gain additional assurance if there was evidence of management review.
- Non-Pay Expenditure: There are 4,200 open orders on the creditors system. This is a reduction from 32,000 noted during the 2009/10 audit. We have been informed that these will all be closed by our final audit visit, so we will carry out additional work then to confirm that these orders have now been closed.

Internal audit gave a rating of 'moderate assurance' for these systems and included recommendations in their reports as appropriate. For this reason we have not included these issues in our recommendations in Appendix A.

We have not yet assessed the controls over capital expenditure, asset disposal, and asset valuation. Many of the key controls in respect of these areas are operated during the closedown process and our testing will be supplemented by further work during our final accounts visit.

System	Assessment
Financial reporting	● [G]
Grant income	● [G]
Housing rents income	● [G]
Council tax income	● [G]
Business rates income	● [A]
Sundry income	● [G]
Payroll expenditure	● [G]
Non-pay expenditure	● [A]
Benefits expenditure	● [A]
Cash	● [G]
Treasury management	● [G]

Key: ● Significant gaps in the control environment.
 ● Minor deficiencies in respect of individual controls.
 ● Generally sound control environment.

Internal audit fully complies with the Code of Practice for Internal Audit in Local Government.

Work completed

In order to maximise the efficiency of the audit function across the Authority, we work closely with Internal Audit to avoid duplication. As part of this process we evaluate the effectiveness of Internal Audit in line with *The Code of Practice for Internal Audit in Local Government* (the Code).

The table left highlights the key criteria that is covered when evaluating the effectiveness of Internal Audit against the Code.

Key findings

We have reviewed Internal Audit’s work and are satisfied that they are compliant with the *Code of Practice for Internal Audit in Local Government*.

This is based on our reported assessment of Internal Audit in 2009/10, our assessment of their files and our knowledge from continual liaison with key personnel, review of documents and attendance at Audit Committee.

There has been a loss of two FTEs within the function as a result of cost savings that needed to be made. This included the retirement of the Head of Internal Audit who will not be replaced in the new structure. Roles and responsibilities are expected to change as a consequence which should be reflected through updating the self assessment held against the standard.

During our interim audit some additional top-up work was required. This is because at present where a control is daily, internal audit tend to test consecutive days. This does not give assurance that the control has worked effectively over the year.

Internal Audit have covered all areas included in our joint working protocol to a good standard, and we are again able to place reliance on that work.

Aspect	Assessment
Scope of internal audit	● [G]
Independence	● [G]
Ethics for internal auditors	● [G]
Audit Committee	● [G]
Relationships with management, other auditors and other review bodies	● [G]
Staffing, training and development	● [G]
Audit strategy and planning	● [G]
Undertaking audit work	● [G]
Audit strategy and planning	● [G]
Due professional care	● [G]
Reporting	● [G]

Key: ● Non-compliance with the standard.
 ● Minor deficiencies.
 ● Full compliance with the standard.

The Authority has made significant progress in completing its restatement of 2009/10 financial statements under IFRS.

Work is still outstanding on areas of fixed assets and some disclosure requirements which we will cover as part of our final audit visit.

We have reviewed the restatement work and are content that the key changes have been appropriately identified and addressed.

Work completed

From 2010/11 local authorities are required to prepare their financial statements under the IFRS based *Code of Practice for Local Authority Accounting in the United Kingdom*. This contains a number of significant differences compared to the previous financial reporting regime.

We will issue our audit opinion on the restatement to IFRS at the September Audit Committee, after our final audit work has been completed. We have reviewed the work the Authority has undertaken to restate its 2009/10 financial statements under IFRS and its preparations for producing 2010/11 balances in its accounts under IFRS during our interim audit.

Key findings

At interim, the Authority had made significant progress in restating their 2009/10 financial statements under IFRS having taken a proactive approach. There are a number of areas as highlighted below where we will complete our work during the year end audit.

During our interim visit we received initial working papers which were of a good quality and were easy to follow regarding material areas identified in our initial IFRS impact assessment. We have focused our work on high risk areas as noted in our audit plan and specifically reviewed the processes and controls in place to ensure completeness and accuracy of the restatement work.

Based on our initial review, the Authority's accounting policies are in line with the Code and we identified only two minor adjustments that were required:

- Provisions - A balance of £500k had been missed off the 2009/10 adjustment spreadsheet. This was due to human error and was amended when we identified.
- Cash & Cash Equivalents - An adjustment was made to the classification of cash and cash equivalents, with all fixed term deposits being classified as investments rather than a mixture of cash equivalents and investments.

Outstanding Work

After our interim visit we still had the following work still outstanding and will complete this during our year end audit visit:

- Related Parties and Leases – The disclosure note is still to be produced. It is more efficient for this to be produced during close down, along with the disclosure for 2010/11, therefore testing will be carried out at year end.
- Segmental Reporting – A review of the segments and their reconciliation to BVACOP analysis is still to be tested. Due to the nature of this disclosure, testing is more appropriate at year end.
- Decommissioning Liabilities – The method statement on the review of potential decommissioning liabilities is outstanding. The total balance of the potential liability is unlikely to be material.
- Property, Plant and Equipment; Investment Property; and Impairment of Assets – Work is still required on the 2009/10 balances in these areas. There was a delay in CIPFA releasing the update to the IPF asset register software, which has had a knock-on effect on the production of the restated balances. Work around componentisation is also outstanding, again due to issues with IPF.

The Authority has taken the key risk areas we identified seriously and made good progress in addressing them.

However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

Work completed

In our *Financial Statements Audit Plan 2010/11*, presented to you in January we identified the key risks affecting the Authority’s 2010/11 financial statements.

Our audit strategy and plan remain flexible as risks and issues change throughout the year. To date there have been no changes to the risks previously communicated to you.



We have been discussing these risks with central finance as part of our regular meetings. In addition, we sought to review relevant workings and evidence and agree the accounting treatment as part of our interim work.

Key findings

You have taken these issues seriously and made good progress in addressing them. However, these still present significant challenges that require careful management and focus. We will revisit these areas during our final accounts audit.

The table below provides a summary of the work the Authority has completed to date to address these risks.

Key audit risk	Issue	Progress
	<p>The Authority have made a number of material impairments over the past two accounting periods as a result of economic conditions. In 2009/10, we also reported the need to undertake a detailed impairment review of the leisure PFI. As a result, we will focus additional effort upon this area of the financial statements.</p>	<p>Our review of the Authority’s asset valuation will be undertaken during the course of our final audit visit.</p> <p>At interim, the Authority had not finalised processing the valuations through their fixed asset systems.</p>
	<p>There will be significant pressures on all Local Authorities due to funding cuts from Central Government and other sources such as Regional Development Agencies as a result of the Comprehensive Spending Review. Implementation of cost saving initiatives will be required to ensure that the Authority’s financial position remains stable.</p>	<p>As at April 2011 we have undertaken a review of the Emergency Budget set by the Authority in November 2010 and the 2011/12 revenue budget. Our findings are documented in Section four on page 15.</p>

Key audit risk	Issue	Progress
 <p>Relationship with 2010 Rotherham Ltd</p>	<p>The repairs and maintenance contracts have been tendered to external providers during 2010/11. In addition, the authority are considering bringing the ALMO fully back in-house which raises a number of accounting queries under IFRS.</p>	<p>On the 23rd February, Cabinet approved bringing the housing management function back in house which made 2010 Rotherham Ltd dormant. The transfer will commence when the current management agreement ceases in May 2011.</p> <p>We have held discussions with the senior leadership team around the tax and pensions implications of bringing the ALMO in house whilst there are also a number of employment related issues that also need to be considered.</p> <p>As at 31st March 2011, we anticipate that there will be provisions / liabilities arising within the single entity accounts. The Authority have an obligation to take responsibility for the pensions deficit and cumulative trading losses that currently sit in 2010 Rotherham Ltd.</p>
 <p>Pension Liability</p>	<p>The local government pension schemes have under gone a triennial valuation which impacts the Council through an increased pension liability. In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Price Index (CPI) rather than, as previously, the Retail Price Index (RPI). These changes will have a substantial impact upon the authority's financial statements.</p>	<p>We have discussed the impact of triennial valuation with the Authority and as a result there is an increased contribution rate of 17.8% from 17.1%.</p> <p>During our visit we followed up on the Audit Commission report SYPA Data Flows issued in 2010. It has been noted that there are a number of items still outstanding from this report which are:</p> <ul style="list-style-type: none"> ■ Backlog of un-notified leavers due to the early leavers initiative; and ■ Confirmation of contributions paid by schools with external providers. <p>At year end, we will review the scheme valuation and ensure that the accounting recognition is accurate. We would expect the overall Authority liability to increase in line with the contribution rates however this will not be known until the Actuary valuation is received.</p>

Key audit risk	Issue	Progress
		<p>The Authority propose to treat the change from RPI to CPI based assumption as an Income Statement item which is consistent with CIPFA technical accounting guidance.</p> <p>This will generate a one off credit through the Income and Expenditure account.</p>
	<p>The Council will require a lot of planning and resources to ensure a smooth and successful transition to IFRS</p>	<p>We have maintained regular dialogue with the Authority over progress with its IFRS restatement work.</p> <p>As at interim the majority of work has been completed however there are a number of discrete areas which are still outstanding and will be completed at our final account visit.</p> <p>A breakdown of outstanding areas and significant adjustments resulting from IFRS are discussed at pages 9 and 10 respectively.</p>
	<p>The conversion process to IFRS requires that the Authority identify and review all significant contracts to identify potential aspects that may require specific accounting treatments under the new IFRS based Code, such as embedded leases.</p> <p>Due to amendment of the definitions of finance and operating leases under IFRS, the Authority needs to consider the substance of all leases identified and consider whether the criteria for finance leases are met.</p>	<p>Work within the financial statements on leases has now been completed with limited impact upon the re-stated financial statements.</p> <p>We have tested a number of lease classifications made by the Authority in line with the requirements of IFRS. This ensures that the correct categorisation between on and off balance sheet disclosure has been employed.</p> <p>This testing has covered both the Authority lease arrangements as lessee and lessor.</p>

Key audit risk	Issue	Progress
	<p>Under IAS 19, there is now a requirement to disclose a liability on the balance sheet where the Authority is required to pay wages and salaries, bonuses and holiday pay.</p>	<p>The Authority do not have an automated system in place that would allow them to collect this data and therefore they have created a manual system based upon sample data. We have verified the approach and ensured that the sample is representative of the Authority's workforce.</p> <p>Our review of the employee data found small isolated errors however these did not have a significant impact upon the restated financial statements.</p> <p>Work in this area is now complete.</p>
	<p>Local authorities are to component account for any additions or valuations on or after 1 April 2010. This means when an item of property, plant and equipment comprises individual components for which different depreciation methods or rates are appropriate, each component is accounted for separately.</p>	<p>The Authority were still in the process of restating balances that related to this category of asset.</p> <p>The Authority's software provider has failed to release the update that allows them to complete adjustments relating to the componentising of assets. We are currently in discussions to identify a resolution to this issue to ensure that the year end position is fairly stated.</p>
	<p>UK GAAP emphasises the substance of control, whereas IFRS considers the power to control. As a result there may be a different interpretation of those entities consolidated into group.</p>	<p>We have assessed the group reporting boundary which has been proposed by the Authority. This has been reset under IFRS to omit Digital Region and RBT as these entities are not material.</p> <p>The boundary still includes 2010 Rotherham and the Authority will continue to prepare group accounts until the entity is formally brought back into the Authority during 2011/12.</p> <p>This area will be finalised at our final audit visit.</p>

We follow a new VFM audit approach this year.

Our VFM conclusion will consider how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

Our VFM Audit Plan 2010/11 describes in more detail how the new VFM audit approach operates and includes our assessment of the risks impacting on our VFM conclusion.

We will report on the result of our work in our ISA 260 Report 2010/11.

Background

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

There are no scored judgements under the new approach and the VFM conclusion is the only output. This remains a 'pass / fail' style assessment.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit. We then assess if more detailed audit work is required in specific areas. The Audit Commission has developed a range of audit tools and review guides which we can draw upon where relevant.

Overview of the new VFM audit approach

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



We have completed our initial work to assess the Authority's financial resilience following the funding settlement for 2011-2013.

Whereas there has been some slippage within individual directorates, the Authority is on target to deliver its planned 2010/11 savings in overall terms, and is forecasting to underspend against budget. It should be noted that this does factor in an original budget overspend of £5.1m in CYPS.

Work completed

We have reviewed the Authority's Budget Strategy 2011/12 as well as the process followed to arrive at these.

We have specifically assessed:

- the actions used by the Authority to secure the necessary savings in its 2011/12 draft budget; and
- the capacity of the Authority's 2011/12 budget to secure financial stability.

This early work was specifically completed to support an Audit Commission study on the impact of the 2011/12 local government settlement on authorities' finances. It is also a key part of our work programme on the financial resilience criterion of the VFM conclusion.

As part of our work we have compared the Authority to its 'nearest neighbours' across a number of indicators. 'Nearest neighbours' are authorities with like demographic features. We have used the latest groups defined by CIPFA for this.

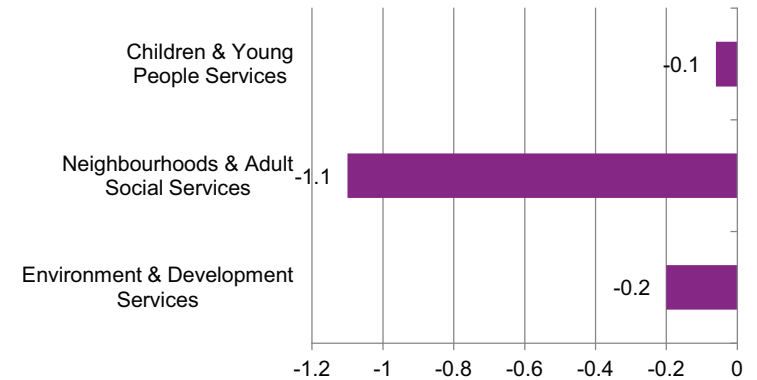
We will complete further work on the Authority's financial resilience during the coming months before we issue our VFM conclusion.

2010/11 financial performance

The Authority set its original 2010/11 revenue budget which allowed for additional investment in front line services in particular to safeguard the well being of both young and older people and continue to finance capital investment across the borough.

Since the Council revised its budget in November 2010 , regular monitoring updates to both Senior Leadership Team and Cabinet Members have been provided. In February 2011, the Council forecast outturn position showed a £1.4m underspend. The actual position by the year end was £1.9m underspend which is notable achievement.

Forecast outturn against 2010/11 budget as at February 2011 by directorate (£m)



Source: Monthly Financial Report to Cabinet, 8 March 2011

The Authority had been preparing for funding cuts for some time and fully reviewed its priorities ahead of the final settlement.

We are satisfied that the leadership team understands the financial management challenges facing the Authority and there has been effective challenge from Members.

Preparation for the Local Government Finance Settlement

The Authority has an integrated financial and service planning process which is embedded involving Members and Officers across all services. A process of Member challenge has been undertaken on the alignment of resources with priorities, as well as proposed investments and efficiencies.

The Authority reviewed its vision and core purpose during 2010/11, with anticipated pressures on public sector funding a key driver in shaping the strategy, and set a new corporate plan for the Authority.

The Medium Term Financial Plan (MTFP) 2010-14, agreed in February 2010 assumed a 8.75 percent funding reduction for 2011/12. This estimate forecast a potential funding gap of £28m which was re-iterated to £30.3m on final settlement due to a change in the formula distribution methodology.

The Authority actively used scenario planning of spending and resources across the CSR period.

Revenue budget 2011/12

The Authority's final settlement for 2011/12 resulted in a reduction in formula grant by £16.2m or 11.6 percent to £123.2m. The withdrawal of central government funding and grant allocations to local government resulted in the Council facing a £30.3m resources gap in 2011/12.

The Council in setting about bridging the resources gap identified a clear set of principles for considering budget saving proposals. By adopting a measured approach the Council was able to protect services for those most in need while delivering a balanced budget without a planned use of available reserves.

Throughout the budget setting process Cabinet Members' involvement was integral and opportunities for scrutiny were provided

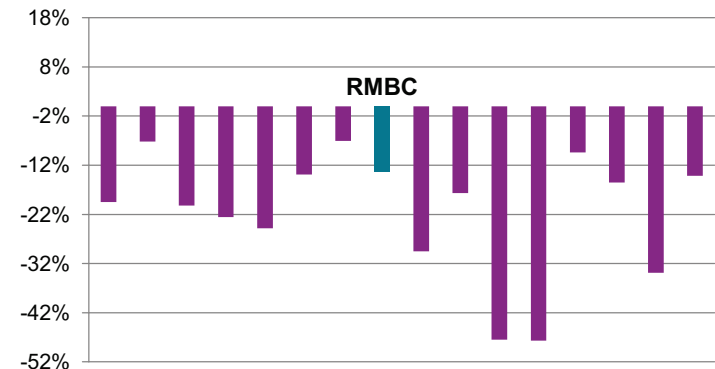
The 2011/12 budget set in February 2011 included the following cross cutting savings:

Corporate Cost Cutting Savings [-£7.3m] – removal of back office costs through review of service activities, spending and asset portfolios;

Pay Terms & Conditions [-£2m] - work with staff and trade unions to identify changes to terms and conditions that will save resource; and

NHS Social Care Funding [-£3.7m] – work jointly with Rotherham FT and NHS Rotherham to support social care at a local level enabling more vulnerable residents to remain independent.

Reduction in Authority Spending Power – comparison with nearest neighbours



Source: LG Finance Settlement data

Current reserve levels are in line with other local authorities. The Authority is planning to maintain these at current levels.

In addition directorate savings of about £17m were identified through the budget saving proposals discussed and agreed with Members.

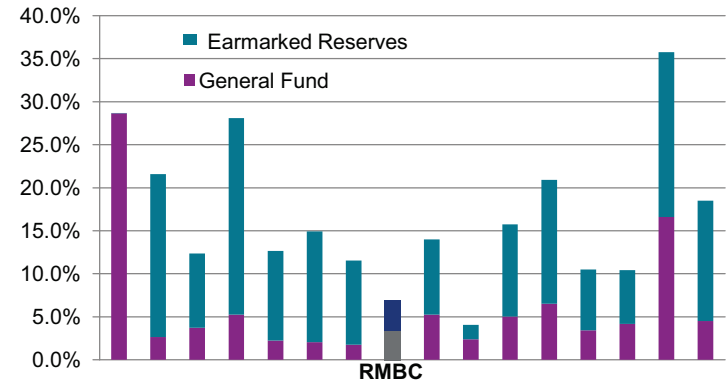
Directorates were required to provide risk assessments and mitigating actions for all proposals. The Authority acknowledges that given the unprecedented level of savings being made it will be essential that contingency proposals are developed.

Usable Reserves

In setting the budget the Council's reserves expected to be approximately £39m which is broadly in line with the Council's medium term financial strategy. The majority of the reserves (£31m) are held to meet specific needs or are ringfenced.

Approximately £8.4m (3.9% of Net revenue Budget) of reserves are generally available for use in supporting the budget which the Council considers to be prudent and reflects the risks faced.

Useable Reserves as at 31 March 2010 as a percentage of Revenue Spending Power 2011/12 – comparison with nearest neighbours



Source: Ratio tool - Audit Commission website, LG Finance Settlement data

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

Priority rating for recommendations

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

No	Risk	Issue and recommendation	Management response/ responsible officer/ due date
1	● (two)	<p>IT Access Controls</p> <p><i>Description</i></p> <p>We have identified a number of instances where user access controls are not operating effectively and / or there are performance improvement points that the Authority should consider:</p> <p>Our findings can be summarised as:</p> <p>A. PSe New User - Access request forms were not available for six out of thirteen new accounts created on PSe within the financial year. This was due to the HR service centre staff setting up new users at the verbal request of their team leaders without the authorisation forms being completed.</p> <p>B. CedAr 'Ghost' Users - A review of CedAr active accounts found three which belonged to staff no longer employed by the Authority. An inspection of the access log showed that the accounts had been accessed since the date the users officially left. Whilst we have no evidence that these accounts have been inappropriately used, it does create a risk that these accounts can be misused.</p>	<p>The Management for each service will review the ongoing effectiveness of the IT access controls and where appropriate (and able to) will consider the actions that need to be taken</p> <p>Due Date September 2011</p>

Appendix 1 Key issues and recommendations (cont.)

No	Risk	Issue and recommendation	Management response/ responsible officer/ due date
	<p>● (two)</p>	<p>C. Radius 'Ghost' Users - A review of active users found eight active Radius user accounts which belonged to staff who had left the Council in the year. This observation indicates a weakness in the operation of the timely removal of leavers' accounts on the system. Whilst we identified no inappropriate activity, it is possible that individuals could gain access to the system after they have left. This creates a risk of fraud or errors relating to transaction processing and financial reporting.</p> <p>D. CedAr / Northgate / PSe Access Reviews – We identified that there is no evidence that review of user access rights have been carried out within CedAr and Northgate. Inappropriate access was identified in the CedAr system only.</p> <p>These observations present a risk over the integrity of system security which could lead to inappropriate access. The impact could be exposure to fraud or erroneous processing within the Authority's financial data. Whilst we have identified a number of instances where 'ghost' accounts have been accessed, this has been for the purpose of running tailored reporting attached to the account.</p> <p>The user access controls become even more pertinent given the current restructuring and cost saving program that the Authority is undergoing.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review its approach to monitoring and controlling access to core financial systems. This should be prioritised through considering the controls around revoking access rights of leavers to prevent the existence of 'ghost' employees as this presents the highest risk to the Authority.</p>	

Appendix 1 Key issues and recommendations (cont.)

No	Risk	Issue and recommendation	Management response/ responsible officer/ due date
2	● (three)	<p>IT General Controls: Password Security</p> <p><i>Description</i></p> <p>The password parameters for key IT systems were inspected, and it was found that the password parameters for both Radius and Northgate were not as strong as could be, giving a risk of unauthorised access to data. A 'strong' password would include a mixture of alpha numeric and character based symbols.</p> <p><i>Recommendation</i></p> <p>We were informed that the upgrade of the Radius application planned for April 2011 would resolve the Radius password parameter issue. We recommend that the upgrade be implemented as planned and the new settings implemented to meet the Council's password standards.</p> <p>The Northgate system administrators should amend the password parameters for all Northgate user account profiles to conform with the Council's password policies.</p>	<p>The Management for each service will review the ongoing effectiveness of the IT access controls and where appropriate (and able to) will consider the actions that need to be taken</p> <p>Due Date September 2011</p>

No	Risk	Issue and recommendation	Management response/ responsible officer/ due date
3	<p>● (three)</p>	<p>Risk Management: Appetite to Risk</p> <p><i>Description</i></p> <p>A review of the Authority's risk register has highlighted that there is currently no process in place to assess the Authority's appetite to risk. This would include the Authority differentiating between areas where greater responsibility should be delegated to Officers and those that need to be controlled to a low level of residual risk.</p> <p>In previous years the Authority have had resource to monitor all areas of risk however this intensive approach may not be feasible or efficient with the recent funding cuts.</p> <p>There is a greater benefit on focussing attention to unwanted area of risk, for example areas that most significantly effect the corporate plan. This would typically be areas where the controlled risk exceeds the risk that the Authority are willing to accept.</p> <p><i>Recommendations</i></p> <p>We recommend that the following are considered to focus risk management resource:</p> <ul style="list-style-type: none"> ■ The risk register is extended to provide an 'acceptable risk' level which is benchmarked against controlled risk to highlight areas that need greater attention; ■ Training is provided to Cabinet / Audit Committee to explain risk appetite and the importance in an environment of reducing resource. 	<p>The Director of IA and Governance will review the suggested recommendation to identify the appropriate action that can be taken with regard to ICT changes and will look to provide an update to the Audit Committee on risk appetite</p> <p>Due Date October 2011</p>

Appendix 2 Follow-up of prior year recommendations

The Authority has not implemented two of the five recommendations in our Interim Audit Report 2009/10.

This is due to pending software upgrades and plans to move to a new council building.

This appendix summarises the progress made to implement the recommendations identified in our Interim Audit Report 2009/10 and re-iterates any recommendations still outstanding.

Number of recommendations that were:

Included in original report	5
Implemented in year or superseded	3
Remain outstanding (re-iterated below)	2

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2011
1	● (two)	<p>Password Parameters – Radius system</p> <p>We inspected the password parameters across Council systems. We noted that the password parameters for the Radius system do not comply with best practice criteria. This issue was also reported in 2008-09.</p> <p>We recommend that management increase the level of password complexity required for the Radius system to meet industry best practice guidelines.</p>	<p>Financial Systems Manager December 2010</p>	<p>This recommendation has not been implemented and has been raised again in Appendix 1.</p>
2	● (two)	<p>Data Backup and Restoration</p> <p>We enquired of management and were informed that regular test restores of key databases is not undertaken.</p> <p>We also noted that the backups are stored in the Library, which is located opposite to the building in which the data centre is housed. This issue was also reported in 2008-09.</p> <p>We recommend that management implement regular testing of backup media to ensure that the restore process operated as expected.</p> <p>We recommend that management investigate off-site storage locations that are not in the proximity of the building in which the data centre is located.</p>	<p>ICT Client December 2011</p>	<p>As part of the planned movement to a new Council building, an increased separation between the main data centre and the backup location is being considered.</p>

Appendix 2 Follow-up of prior year recommendations (cont.)

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at April 2011
3	● (two)	<p>IS Policy Acceptance</p> <p>We inspected a sample of 15 new starters and identified that for 8 of these, they did not confirm their acceptance of the Information Security Acceptable Use Policy.</p> <p>We recommend that IT ensure that the Information Security Acceptable Use Policy is disseminated to all staff and require signed acceptance of the policy.</p>	<p>HR/Data Protection Officer/ICT Client</p> <p>September 2010</p>	<p>A list of new starters is now produced on a monthly basis and checked against the e-induction system to identify any starters which have not completed their IT induction. Their line manager is then notified to ensure this is carried out.</p>
4	● (three)	<p>Monitoring – Active Directory, Radius and PSE systems</p> <p>We inspected the processes and controls for monitoring user access rights across Council systems. No monitoring of user access rights for Active Directory (controls access to the network) and Radius is operated on a regular basis. In addition, we noted that no evidence was available to demonstrate whether regular monitoring of users on PSE is undertaken.</p> <p>We recommend that regular monitoring of user access rights across Council systems is completed and evidence of the monitoring is retained.</p>	<p>RBT ICT (for AD)</p> <p>Financial Systems Manager (for Radius)</p> <p>June 2010</p>	<p>This recommendation has not been implemented and has been raised again in Appendix 1.</p>
5	● (three)	<p>New User Access Administration – Radius system</p> <p>We inspected the process for setting up new users across systems. We noted that for Radius, line manager or business/system owner approval is not required for a new user to be created.</p> <p>We recommend that all new users on Radius are subject to authorisation from a relevant member of management prior to access being granted.</p>	<p>Financial Systems Manager</p> <p>May 2010</p>	<p>Each area now has an approved authoriser who has to approve user access to Radius before it is granted.</p>



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ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS
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1.	Meeting:	Audit Committee
2.	Date:	20 July 2011
3.	Title:	Statement of Accounts 2010/11
4.	Directorate:	Financial Services

5. Summary

Members will recall that the Accounts and Audit Regulations 2011 have introduced changes to the requirements for approving and publishing the Council's annual accounts. Hitherto, Members were required to approve both the unaudited and audited Statement of Accounts. Under the 2011 Regulations the statutory requirement for the unaudited accounts to be approved by Members has been removed. The new requirements which came into effect for the 2010/11 annual accounts are now that:

- Annual unaudited accounts are to be certified by the Strategic Director of Finance as the Responsible Financial Officer no later than 30 June; and
- Annual audited accounts to be re-certified by the Responsible Financial Officer and formally approved by Members then published no later than 30 September.

Audit Committee requested at its meeting on 16 February 2011 that, in order to maintain the strong governance over financial reporting locally in Rotherham, it should continue to receive and consider the unaudited accounts.

Accordingly, this report has been prepared to offer Members such an opportunity and to highlight some of the key features to help them interpret the 2010/11 Statement of Accounts which are the first to be produced under International Financial Reporting Standards (IFRS). In producing this report, particular focus has been given to providing Members with an understanding of the changes IFRS has introduced and to more general areas of interest within the accounts. The general areas of interest include those which CIPFA's Better Governance Forum suggested Audit Committees might find pertinent in reviewing an authority's financial statements in their May 2011 Audit Committee Update which was brought to Audit Committee's attention last month.

The formal audit of the Council's 2010/11 accounts has now begun. The results will be reported by the Auditor's ISA 260 report to the September 2011 meeting of this Committee at which formal approval of the audited Statement of Accounts by Members will be sought.

This report also sets out the action that has been taken to address the issues raised in the Auditor's 2009/10 ISA260 report and 2010/11 interim audit report in preparing the 2010/11 Statement of Accounts.

6. Recommendation

The Audit Committee is asked to note the unaudited Statement of Accounts 2010/11

7. Proposals and Details

The principal purpose of the Statement of Accounts is to present a true and fair view of the financial position of the Authority at the end of the financial year (31 March) and the income and expenditure for the year then ended.

The transition to IFRS has resulted in significant changes to the way in which the financial performance of the Authority is reported. Audit Committee has been briefed on these changes and, in the most recent IFRS progress update (February 2011), a revised balance sheet and financial performance for 2009/10 was presented to the Committee to highlight the impact of those changes. During the course of 2010/11 closedown the impact on 2009/10 figures has been fully evaluated and this has led to some minor revision of the adjustments reported to Members in February. The final overall effect of restatement on the balance sheet at 31 March 2010 and 2009/10 comparatives is provided in the tables in the **Explanatory Foreword on page 4** of the Statement of Accounts. The restatement of 2009/10 comparatives means that they are now on a like for like basis with 2010/11.

The attached Appendix provides Members with:

- An explanation of the purpose and content of the financial statements under IFRS,
- A financial commentary on the financial performance and financial position of the Authority by reference to the main financial statements included in the 2010/11 Statement of Accounts (Part A of the attached Appendix);
- Further details on the main accounting changes IFRS has introduced are contained in Part B; and
- How the Council in closing down and preparing the 2010/11 Statement of Accounts has addressed the issues raised in the Auditor's ISA260 Report 2009/10 and 2010/11 interim audit report (Part C).

8. Finance

The Statement of Accounts 2010/11 presents a true and fair view of the Council's financial position as at 31 March 2011 and its income and expenditure for the year then ended.

9. Risks and Uncertainties

The Statement of Accounts is subject to external audit which may result in matters arising from the audit that may need to be reported to the Audit Committee.

10. Policy and Performance Agenda Implications

The unaudited Statement of Accounts has been prepared in accordance with the agreed closedown timetable, thus achieving the statutory deadline for approval by the Responsible Financial Officer by the 30 June and for placing them on the Council's website for public inspection by the date agreed with the Auditor of 5 July.

11. Background Papers and Consultation

Unaudited Statement of Accounts 2010/11

Code of Practice on Local Authority Accounting in the UK 2010/11

Code of Practice on Local Authority Accounting in the UK 2010/11 - Guidance Notes

CIPFA Better Governance Forum Audit Committee Update Issue 5 dated May 2011

Audit Committee – 16 February & 16 March 2011

Contact Names:

Derek Gaffney, Chief Accountant, ext. 22005,

derek.gaffney@rotherham.gov.uk, and

Simon Tompkins, Finance Manager (Accounting Standards), ext 54513

simon.tompkins@rotherham.gov.uk

Overview

The Code of Practice on Local Authority Accounting in the UK 2010/11 (the Code) specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents a true and fair view' of the financial position and transactions of a local authority.

The 2010/11 Code is based on International Financial Reporting Standards and specifies the minimum presentation and disclosure requirements.

The Code constitutes '**proper accounting practice**' under the terms of the Local Government Act 2003 and local authorities therefore have a statutory duty to adhere to it.

Its principal purpose is to present a true and fair view of the financial position of the Authority at the end of the financial year (31 March) and the income and expenditure for the year then ended.

Purpose

The Code has been prepared on the basis that the purpose of the Statement of Accounts is to give electors, those subject to locally levied taxes and charges, Members, employees and other interested parties clear information about the Council's finances.

Contents

Under the Code, the Authority's financial performance and financial position is reported through the:

- **Comprehensive Income and Expenditure Statement (CIES) (Page 14)** – The Comprehensive Income and Expenditure Statement shows the surplus or deficit on the provision of services and other gains and losses recognised in the year prior to any statutory adjustments for the differences between the way transactions are presented on an accounting basis and the amounts which are required to be met under legislation from local taxpayers and housing rents to meet the cost of General Fund and HRA services.
- **Movement in Reserves Statement (MIRS) (Pages 15 to 17)** – The Movement in Reserves Statement shows the net change in the balances on reserves allowing for the aforementioned statutory adjustments.
- **The Cash Flow Statement (Page 19)** – This Statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. The statement shows how the Council generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

- **The Housing Revenue Account (HRA) Income and Expenditure Account (Page 101)** – This Account summarises the income and expenditure in respect of the provision of local authority housing accommodation. Local Authorities are required by statute to account separately for all transactions relating to the cost of providing such accommodation.
- **Collection Fund Account (Page 111)** – By statute, billing Authorities are required to maintain a separate Collection Fund which shows the level of National Non Domestic Rates, Council Tax and the residual Community Charge received by the Authority during the accounting period and the distribution of these funds.

The Authority's financial position is reported through the:

- **Balance Sheet (Page 18)** - The Balance Sheet shows the value as at the Balance Sheet date of the asset and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) represent the Council's net worth and are matched by the reserves held by the Council. Reserves are analysed into usable and unusable.

In addition to the main financial statements described above, the Statement of Accounts also contains:

- **Statement of Responsibilities for the Statement of Accounts (Page 1)** – which details the respective responsibilities of the Authority and its chief financial officer for the accounts
- **An Explanatory Foreword (Pages 2 to 12)** - this highlights the purpose of each of the statements disclosed, the headline details in terms of the Council's revenue and capital expenditure and income for the year, together with a brief description of the significant matters affecting the Council's financial position. It also includes a brief overview of issues which may affect the Council's financial position in the longer term.
- **A Statement of Accounting Concepts & Policies (Pages 130 to 150)** – The accounting policies are the principle bases, conventions, rules and practices that specify how the effects of transactions and other events are reflected in the financial statements. The accounting policies that have been applied in preparing the Council's 2010/11 financial statements are detailed on pages 130 to 150 of the accounts and were approved by Audit Committee in March 2011.

PART A**Commentary on the financial performance and financial position of the Authority****(i) Comprehensive Income and Expenditure Statement and Movement in Reserves Statement - Financial performance (Pages 14 to 17)****Revenue Outturn**

The Comprehensive Income & Expenditure Statement and the Movement in Reserves Statement when taken together show the cost of providing Council services in a different format to that reported to Members through the Revenue Outturn.

Members should be assured by the fact that the final page of the Movement in Reserves Statement on page 17 shows the General Fund outturn of £2.229m (underspend) and the HRA outturn of £4.118m (overspend) which should be familiar to them.

It is the Movement in Reserves Statement which provides the link between the Revenue Outturn & the Surplus & Deficit on the Provision of Services which is reported within the CIES. This latter amount represents the surplus or deficit the Council would have reported under commercial accounting principles. However, local government is subject to a range of accounting and capital financing regulations which means that the amount to be met from local taxpayers, central government and housing rents is subject to a series of **statutory adjustments** in determining the net revenue requirement. It is these adjustments which are included in the Movement in Reserves Statement so as to bring the amount shown in the CIES back to the revenue outturn.

This is illustrated below:

	£m
General Fund underspend against budget	(2.149)
Schools underspend against budget	(0.080)
GF Revenue Outturn reported to Members (page 17)	(2.229)
HRA Revenue Outturn (page 17)	4.118
Combined GF and HRA Revenue Outturn	1.889

<u>Reconciliation of revenue outturn to the deficit on provision of services (£210.519m) reported in the CIES:</u>	£m
Combined GF and HRA Revenue Outturn	1.889
Less: Other transfers (to)/from General Fund (page 17)	(0.123)
Add back: Transfers (to) / from earmarked reserves:	
General Fund (page 17)	5.446
HRA (page 17)	(0.265)
Add back: Adjustments between accounting basis and funding basis:	
General Fund (page 17)	(2.507)
HRA (page 17)	206.079
Deficit on the provision of services reported in the CIES (page 16)	<u>210.519</u>

As at 31 March 2011 the Council has £8.402m available in uncommitted General Fund Reserves. This is equivalent to 3.9% of the Council's Net Revenue Budget and is deemed to be a prudent level, which will allow the Council to address any issues and pressures that may arise during the coming financial year. The Council also holds £25.497m in earmarked General Fund reserves (including £0.324m schools' Declared Savings and excluding £8.064m revenue grants reserve). Transfers to / from earmarked reserves are detailed in Note 2 on page 27 of the accounts.

The adjustments between accounting basis and funding basis are detailed in Note 1 on pages 24 to 26 of the accounts. The principal items are:

- Depreciation, impairment and revaluation losses which are charged to income and expenditure within the CIES but are not proper charges to revenue. They are therefore reversed out and replaced by the statutory amount the Council sets aside to repay debt used to finance capital investment (the minimum revenue provision or MRP).
- Local authorities are required to account for revenue and capital resources separately. Accordingly, capital grants and contributions recognised within income and expenditure in the CIES are reversed out and transferred to unusable reserves if applied for financing or to usable reserves if still to be applied. Similarly, gains or losses on the disposal of non current assets recognised within income and expenditure are reversed out and the sale proceeds transferred to capital receipts.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

All income and expenditure is reported internally except for the following items which are only accounted for as part of the year end closedown process. These items are included as income and expenditure within the CIES but do not represent proper charges to revenue and are therefore reversed out as part of the adjustments between the accounting basis and funding basis:

- £33.646m of FRS 17 pension costs credited to the CIES (comprising the two entries shown in Note 1 on page 25 of the accounts of £8.363m plus £25.283m), and
- £1.606m relating to short term accumulated absences credited to the CIES shown in Note 1 on page 26 of the accounts

The segmental reporting note (Note 3 on pages 31 to 35 of the accounts) aims to provide a reconciliation of the net revenue requirement reporting internally to management to the surplus or deficit on the provision of services reported in the CIES.

The Revenue Outturn report presented to Cabinet on 20th July provides Members with greater detail on the Council's financial performance against budget on General Fund services and the HRA.

Other comprehensive income and expenditure £35.855m

Not all the gains and losses experienced by the Council are reflected in the surplus or deficit on the provision of services and net increase or decrease in General Fund and HRA balances.

The final section of the CIES details these other items which have been recognised in the year and which impact on the net assets and liabilities of the Authority. In 2010/11, these comprised:

- A surplus on the revaluation of property, plant and equipment of £0.949m;
- Actuarial gains on pension fund assets and liabilities of £34.102m; and
- Other gains of £0.804m relating to the repayment of the Council's share of the former South Yorkshire County Council metropolitan debt

(ii) Balance sheet – Financial position (page 18)

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) represent the Council's net worth. The Council's net worth is matched by the reserves held by the Council which are analysed into usable and unusable.

The overall change in net worth is as follows:

	£m
Net Worth – as at 1 April 2010 (page 18)	524.339
Less: Deficit on provision of services (page 14)	(210.519)
Add: Other comprehensive income and expenditure (page 14)	35.855
Net worth – as at 31 March 2011 (page 18)	<u>349.675</u>
 Change in Net Worth	 <u>(174.664)</u>

Of the change in Net Worth the only impact on the spending power of the Council is a reduction of £7.455m in the reserves available to support revenue and capital expenditure principally due to:

- the underpend on the General Fund balance of £2.229m;
- the overspend on the HRA of £4.118m; and,
- the decrease in earmarked General Fund reserves of £5.446m representing accounting opportunities realised referred to in Section 2(d) of the Explanatory Foreword on page 5 of the accounts.

The main issues to note regarding the balance sheet are set out below:

Long term assets

- Property, Plant and Equipment – the carrying value of these assets has fallen by £207m. The reduction is principally due to decreases in the certified valuations of Council assets of £196m, the most significant being a reduction of £188m in the value of council dwellings. The latter has occurred because the social housing discount factor applied to all council house values in Yorkshire and Humberside to reflect the fact that rents are at social housing rather than market rates was adjusted by central government from 47% in 2009/10 to 31% in 2010/11.
- Long-Term Investments – during the year the £8.5m invested long-term at 31 March 2010 was returned to the Council in accordance with the terms of the investments. No new long-term investments were made 2010/11.

Current assets and current liabilities

- Short-term Investments – the decrease of £5.5m reflects the fluctuations in the Council's short-term cash position.
- Cash in hand / bank overdrawn – as shown in note 34 on page 80 of the accounts, there was an overall increase of £14m in the Council's cash position due to the reduction of £8.5m in long term investments and £5.5m in short term investments during 2010/11.
- Short-term Borrowing – the increase of £7m is mainly due to the fact that the Council had £5m of temporary overnight borrowing at 31 March 2011. The temporary borrowing was required as part of the Council's day to day cashflow management because almost all of the cash in hand balance of £20m shown in Note 34 is held by schools whose cash is not managed on a unified basis with that of the Authority and is not available to the Council for treasury management purposes.

- Debtors – the decrease of £20m is principally due to:
 - the net amount owed by the government in respect of NNDR reduced by £4.3m.
 - the amount due from 2010 (Rotherham) Ltd reduced by £2.1m.
 - the amount to be collected from invoices raised through the sundry debtors system reduced by £6.8m.
 - the net amount owed by the Government in respect of housing and council tax benefit reduced by £1.6m.
 - grant due from Yorkshire Forward reduced by £2m.
- Creditors – the decrease of £10m is principally due to:
 - the amount due to 2010 (Rotherham) Ltd reduced by £8.1m.

Long term liabilities

- Long-term Borrowing – the increase of £23m reflects the fact that the Council borrowed to meet the underlying capital financing requirement for the year.
- Pensions liability – the Council's pension liability as assessed under the requirements of FRS17 decreased by £73m. The main reason for this was the government announcement that pensions would be indexed using the Consumer Price Index instead of the Retail Price Index which has resulted in the Pension scheme's estimated liabilities reducing by £53m. It should be noted that employer contributions to the South Yorkshire Pensions Fund are based on the full triennial valuations carried out by actuary not the FRS 17 assessed liability.
- PFI Finance Lease Liability – as shown in note 44(g) on page 96 of the accounts there was an overall decrease of £2m in the PFI liability reflecting the amounts calculated through the PFI accounting models of the liabilities due to be written-down from 2011/12.
- Capital grants receipts in advance – this balance represents grants which have not yet been recognised within income and expenditure because terms and conditions have not been fulfilled. As shown in note 8 on page 40 of the accounts the balance of £0.466m at 31 March 2011 consists solely of Section 106 developer contributions.

Usable Reserves

Note 37 on page 84 of the accounts provides a detailed breakdown of the Council's usable reserves.

Included within usable reserves are:

- £25.341m of unapplied capital grants which have been recognised as income as terms and conditions have been met but which have yet to be applied for capital financing. As explained above, capital grants and contributions whose terms and conditions have still to be fulfilled do not form part of reserves but

are presented separately on the face of the balance sheet within long term liabilities as capital grants receipts in advance.

- Unspent school balances of £2.828m and schools declared savings of £0.324m. These sums have been allocated to schools as part of their formula funded budgets and are exclusively earmarked for use by the schools concerned.
- Earmarked reserves of £33.826m set aside to meet specific purposes details of which are contained in Note 2 on page 27 of the accounts. Included within earmarked reserves are £8.064m of revenue grants which have been recognised within income as terms and conditions have been met but have not yet been used to finance revenue expenditure. Were there to be any revenue grants whose terms and conditions had still to be fulfilled they would be included within creditors as revenue grants receipts in advance. However, there were no such grants at 31 March 2011.

Unusable Reserves

Note 38 on page 85 of the accounts provides a detailed breakdown of the Council's unusable reserves.

- Capital Adjustment Account and Revaluation Reserve – the changes in the balances arose from the various capital accounting entries made in the year. These were the result of the capital expenditure incurred, its funding in the year, and changes to asset valuations.
- Pensions Reserve – this balance matches the FRS 17 pensions liability. It arises from the statutory protection afforded to local authorities which results in charges to revenue being equal to the employer contributions due to the South Yorkshire Pension Fund in the year rather than pension costs based on FRS 17.
- Short term accumulating absences account – this balance matches the amount accrued within creditors in respect of short term accumulating absences. It similarly affords protection to local authorities from having to charge revenue with the amounts accrued.

(iii) Cash Flow Statement (page 19)

This Statement summarises all the cash inflows and outflows for revenue and capital purposes arising from the Council's financial transactions with third parties. This reconciles to the change in cash balances shown in the Balance Sheet comprising cash and cash equivalents in hand less bank overdrafts as shown in Note 34 on page 80 of the accounts.

Year on year the main impact has resulted from the approved treasury management activities, which produced savings to the General Fund, and additional expenditure through the capital programme supported through higher grant receipts.

(iv) Housing Revenue Account (pages 101 and 102)

The Housing Revenue Account (HRA) forms part of the income and expenditure reported in the CIES and hence part of the overall surplus or deficit on the provision of services.

The HRA is disaggregated from the remainder of the General Fund in the Movement in Reserves Statement to recognise its ring-fenced status. As can be seen from that Statement (page 17 of the accounts) the HRA's share of the overall surplus or deficit on the provision of services (as shown in the CIES) is adjusted for differences between the accounting basis and funding basis of the HRA. After then allowing for transfers to earmarked HRA reserves, the net use of HRA balances for the year is shown (£4.118m). This is the amount reported to Members within the overall Council Revenue Outturn report and further detail on the financial performance of the HRA can be found in that report.

(v) Collection Fund (page 111)

The outturn on the Collection Fund for 2010/11 is a surplus of £0.201m as shown on page 111 of the accounts. This is after distribution of £1.662m to the precepting and billing authorities in the year (including £1.303m to the Council). Excluding the distribution, the Fund made a surplus of £1.863m.

At the end of 2010/11 the Council's share of the £3.069m remaining in the Fund is £2.724m as shown in Note 5 to the Collection Fund on page 113 of the accounts.

The Fund will continue to be managed to ensure the balance is utilised to reduce the impact of Council Tax on the Borough's residents.

(vi) Group Accounts (pages 117 to 129)

The Council conducted a review under IFRS of other organisations in which it has interest to determine which should be consolidated into the Council's Group Accounts. The outcome of this review is that in 2010/11 the Group should comprise the Council and its wholly owned subsidiary 2010 (Rotherham) Ltd.

The consolidated financial results of the Group are shown in the Group Accounts on pages 117 to 129 of the accounts.

PART B

Changes in accounting brought about by the introduction of IFRS

The most significant changes in accounting introduced by IFRS are as follows:

(a) **Capital grants and contributions**

Under the SORP, capital grant was initially credited to a Government Grants Deferred Account when applied for financing and then released to income and expenditure over the life of the asset to which the grant related. Unapplied grant was effectively held as deferred income in the top half of the balance sheet within long term liabilities until applied for financing.

Under IFRS, capital grants and contributions are shown in full within income and expenditure as soon as terms and conditions of grant have been met. Grants whose terms and conditions have been met but which have still to be applied are held within usable reserves. Grants which have not yet been recognised within income and expenditure because terms and conditions have not been fulfilled are held as capital grant receipts in advance in the top half of the balance sheet as a long term liability.

These changes resulted in adjustments to the 31 March 2010 balance sheet comprising: transfer of £99m of capital grant applied for financing to unusable reserves; transfer of £22m of unapplied capital grant on which there are no outstanding terms and conditions to usable reserves; and, £4m of unapplied capital grant with outstanding terms and conditions being shown as capital grant received in advance within long term liabilities.

(b) **Leases**

Both IFRS and the SORP require leases to be classified either as operating leases or finance leases but apply different criteria for making this assessment. In general under IFRS, there is a greater likelihood of leases being classified as finance leases. Under an operating lease, the risks and rewards of ownership of the asset being leased is retained by the lessor on whose balance sheet it sits whereas in the case of a finance lease the risks and rewards of ownership transfer to the lessee and the asset sits on the lessee's balance sheet.

In 2010/11, £0.14m of finance leases have been recognised on the Council's balance sheet where the Council acts as lessee, and £19m of assets removed from the Council's balance sheet as a result of the Council granting finance leases to two schools when they acquired Academy status during the year

(c) **Property, Plant and Equipment**

IFRS has introduced new asset categories of Property, Plant and Equipment; Investment Property and Assets Held for Sale for items to replace what were previously described as tangible fixed assets under the SORP. The definitions of these new asset categories led to £18m of Property, Plant and Equipment being reclassified as Investment Properties and Assets Held for Sale in the 31 March 2010 balance sheet.

A further change is the way in which revaluation losses are treated. Under IFRS these are first offset against any related revaluation gains in the balance sheet before charging any remaining revaluation losses to the CIES whereas under the SORP revaluation losses were charged in full to the CIES. This has resulted in revaluation losses charged to CIES in the restated 2009/10 comparatives being reduced by £22m and approximately £17m of losses being offset against gains in the balance sheet in 2010/11.

(d) Short term accumulated absences

Under IFRS Councils are obliged to include within the accounts an amount to reflect the short term benefits that employees have earned under their contract of employment but not been paid at the year end. The principal one is holiday pay but also includes flexi time being carried forward. There was no requirement to include such an amount under the SORP.

As a result £9m was included in the 31 March 2010 balance sheet and this had reduced to £7.5m at 31 March 2011.

Statutory protection has been given to local authorities by the Government to prevent this additional cost falling on local tax payers. Any amounts included are reversed out through the Movement in Reserves Statement so that there is no impact on the Revenue Outturn.

PART C**Addressing the Auditors ISA260 Report 2009/10 and 2010/11 interim audit report**

The Auditors ISA260 Report 2009/10 drew to Members attention one issue in the Council's accounting and internal control systems and qualitative aspects of accounting practices and financial reporting where improvements could be made.

The table below sets out the issue raised in the Auditors ISA260 Report and how in closing down and preparing the 2010/11 Statement of Accounts the Council has sought to address the issue.

Issue raised in Auditors ISA260 Report	How the Council has addressed the issue
<p>Valuation of Leisure PFI assets</p> <p>The Authority brought the Leisure PFI on balance sheet at the valuation given at inception. It is necessary to conduct frequent valuations to identify any potential impairments arising in relation to assets.</p> <p>During the year the Authority had conducted a desk top valuation to confirm the values in the original PFI model.</p> <p>The desktop review highlighted a potential impairment of £3.987m however the Authority did not adjust the carrying value of the PFI to reflect this in the accounts.</p> <p>It is recommended that the Authority carries out a full valuation exercise on the Leisure PFI assets to validate the fair carrying value in the 2010/11 accounts.</p>	<p>Leisure PFI assets have been formally revalued in 2010/11.</p>

The Auditor's 2010/11 interim audit report identifies two other minor financial reporting matters relevant to the restatement of 2009/10 figures on an IFRS basis.

The table below sets out the issues raised and how in closing down and preparing the 2010/11 Statement of Accounts the Council has sought to address them.

Issue raised in Auditors 2010/11 interim audit Report	How the Council has addressed the issue
<p>Provisions</p> <p>Under IFRS, provisions should be classified as current or long term according to whether the obligation is expected to be settled within 12 months or after more than 12 months.</p> <p>A balance of £500,000 at 31 March 2010 relating to Maltby Academy was misclassified as long term at the time that the interim audit work was carried out.</p>	<p>The provision has been reclassified as current in the final version of the restated 31 March 2010 balance sheet included within the 2010/11 Statement of Accounts.</p>
<p>Cash and cash equivalents</p> <p>Under IFRS, it is a matter for each authority to determine which cash deposits are to be treated as cash equivalents and which as short term investments.</p> <p>At the time of the interim audit, an adjustment was made to reclassify £9.3m of fixed term deposits with the Debt Management Office and Building Societies from cash equivalents to short term investments.</p>	<p>The adjustment arose due to the Council confirming the accounting policy in relation to cash equivalents and short term investments with support from its treasury advisors.</p> <p>This policy has been consistently applied in preparing the restated balance sheet and current year balance sheet reported in the 2010/11 Statement of Accounts.</p>