AUDIT COMMITTEE

Venue:	**Town Hall, Moorgate Street, Rotherham. S60 2TH**	**Date:**	**Wednesday, 28 September 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 20th July, 2011 (herewith) (Pages 1 - 4)

4. Review of Progress Against the Internal Audit Plan for 4 months ending July 2011 (report herewith) (Pages 5 - 12)

5. Annual Treasury Management Report and Actual Prudential Indicators 2010/11 (report herewith) (Pages 13 - 27)

6. Statement of Accounts 2010/11 (report herewith) (Appendix 2 supplied separately) (Pages 28 - 58)

AUDIT COMMITTEE
Wednesday, 20th July, 2011

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

Also in attendance were Rob Mitchell and Amy Warner (KPMG)

Apologies for absence were received from Councillors Kaye and Sims.

P11. MINUTES

Resolved:- That the minutes of the previous meeting held on 29th June, 2011 be agreed as a correct record.

P12. ANNUAL FRAUD REPORT 2010/11

Colin Earl, Director of Internal Audit and Governance, presented the submitted report relating to the third 'Annual Fraud Report'. The purpose of the report was to bring together, in one document, a summary of the work which had taken place in the period to prevent and detect fraud and corruption. By publicising the Annual Report, it was intended to demonstrate the Council's commitment to minimising the risk of fraud and to act as a deterrent to would be fraudsters.

The incidence of fraud remained very low in overall terms, taking into account the Council's activities and spending. There were no general fraud cases (excluding benefits) exceeding £10,000 which were required to be reported to the Audit Commission.

Examples of cases were:-

- RBT, which administered the Housing Benefit service on the Council's behalf, recovered £2.45m overpayment of benefits (mainly as a result of error but including fraudulent claims). Any amounts recovered were 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 £249,000

- 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

The draft Annual Fraud Report was submitted.

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

(2) That the production of the Annual Fraud Report be supported.

(3) That it be agreed that appropriate publicity be produced to highlight the outcomes from the Council's anti-fraud activity and to act as a deterrent to fraud.

P13. AUDIT AND INSPECTION RECOMMENDATIONS UPDATE

Sue Wilson, Performance and Quality Manager, presented the submitted report which summarised the progress made against recommendations from across all key external audits and inspections by the Council.

It was intended that the report provided a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the last report considered in October, 2010. A summary of the full inspection profile, since 2007, was detailed in the appendix to the report.

Since the last report there had 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 above, there had been a total of 339 recommendations since 2007. Of those:-

- 311 had been completed (92%), 40 of which had been completed since the last report
- 28 remained outstanding (8%), 18 of which related to new inspections and assessments

Discussion and a question and answer session ensued and the following issues were covered:-

- statistical neighbour and national averages relating to (R2-NI59) Increase the percentage of initial assessments for children's social care carried out within 7 working days of referral to 85% by the end of October, 2010
- reasons for significant drop in performance relating to (R2-NI60) Increase the percentage of core assessments for children's social care carried out within 35 working days of their commencement to 87% by the end of March, 2011

- action in respect of (R18) Implement the Council's supervision policy so that all social workers receive supervision in line with the Council's policy

- (R5) Improve the quality of social care supervision so that staff receive the right of level of challenge, development and support

- Adult Social Care inspection regimes and concerns regarding the futility of notified inspections. Inspections should be unannounced

- need for the inspection and audit profile to include an indication of completion timeline

Resolved:- (1) That the progress achieved against outstanding recommendations be noted.

(2) That the actions detailed in the exception reporting on the outstanding recommendations be noted.

(3) That consideration be given to the need for adult social care inspections to be unannounced.

(4) That future reports on the inspection and audit profile include an indication of completion timeline.

P14. KPMG 2010/11 INTERIM EXTERNAL AUDIT REPORT

Stuart Booth, Director of Central Finance, presented the submitted report which referred to the outcomes of 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 was 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) were of a 'high priority' status that required immediate action.

The report identified how the recommendations would be concluded over the next period. Rob Mitchell, KPMG, gave a brief overview of the interim visit and affirmed the positive nature of the report but stressed that there were challenging times ahead. He elaborated on the three recommendations. KPMG's report was submitted.

Discussion and a question and answer session ensued and the following issues were covered:-

- NNDR

- IFRS restatement

- Pension liability

Resolved:- That the findings and recommendations presented in KPMG's interim external audit report be noted.

P15. UNAUDITED STATEMENT OF ACCOUNTS 2010/11

Further to Minute No. P45(2) of the meeting of this Committee held on 16th February, 2011, Derek Gaffney, Chief Accountant, presented the submitted report to highlight some of the key features to help interpret the 2010/11 Statement of Accounts which were the first to be produced under International Financial Reporting Standards (IFRS).

Particular focus had been given to providing an understanding of the changes IFRS had introduced and to more general areas of interest within the accounts. Formal audit of the Council's 2010/11 accounts had begun. The results would be reported in the Auditor's ISA 260 report in September, 2011 at which formal approval of the audited Statement of Accounts by the Committee would be sought.

The report also set out action that had been taken to address issues raised in the Auditor's 2009/10 ISA 260 report and 2010/11 interim audit report.

Discussion and a question and answer session ensued and the following issues were covered:-

- level of balances

- current Icelandic banking situation

- short term temporary borrowing

- pension liability

Resolved:- That the unaudited Statement of Accounts 2010/11, as submitted, be approved.

ROTHERHAM BOROUGH COUNCIL – REPORT TO AUDIT COMMITTEE

1.	**Meeting:**	Audit Committee
2.	**Date:**	28th September 2011
3.	**Title:**	Review of Progress Against the Internal Audit Plan for 4 months ending July 2011
4.	**Programme Area:**	Financial Services

5. Summary.

This report contains a summary of Internal Audit's work and performance for the four months ending July 2011. The service has achieved very good performance in the period, exceeding most of its stretch targets.

The audit work completed to date has confirmed the Council has a robust overall control environment.

6. Recommendations.

The Audit Committee is asked to:

- **note the very good performance by the Internal Audit Service during the period**

- **note the key issues arising from the work done in the period.**

7. Proposals and Details.

7.1 Reason for this Report.

This report summarises the main activities of the Internal Audit service for the first four months of 2011/12. The report is presented to the Audit Committee to enable the Committee to fulfil its responsibility to oversee the work of Internal Audit. The report identifies:

- Performance against key service benchmarks
- Audit reports issued during the period, highlighting the overall conclusion for each audit
- The number of high priority recommendations made
- The proportion of recommendations not agreed.

7.2 Performance Indicators.

7.2.1 Our performance against a number of indicators is summarised in the table below:

Performance Indicator	2009/10	2010/11	2011/12 Target	April to July 2011
Draft reports issued within 15 days of field work being completed.	90%	90%	91%	93%
Percentage of 3 star recommendations agreed.	100%	100%	100%	N/A – none made in period
Chargeable Time/Gross Time.	62%	62%	63%	62%
Audits completed within planned time.	82%	93%	93%	93%
Percentage of Audit Plan completed.	86%	84%	86%	90%*
Cost per Chargeable Day.	£307	£291	£270	£253
Client Satisfaction Survey.	90%	89%	90%	100%

** extrapolated from performance to date*

7.2.2 This represents very good performance by the Internal Audit service. In particular, a key target for the section for the year is to maximise chargeable time and successful performance in this respect so far has resulted in a substantially lower cost per chargeable day. Client satisfaction has been excellent in the period and performance against all other targets remains high.

7.3 Planned Audit Reports and Recommendations.

Appendix A shows the audit reports issued and agreed during the first four months of the year. All of the audits subject to an overall opinion during the period were regarded as having adequate controls in place to minimise the risk of fraud and error.

7.4 Responsive Audits.

Appendix B summarises responsive work carried out in the period, which can be categorised into two main areas:

- Investigative work.
- Requests for advice and assistance.

A total of 122 man days has been spent on responsive work to date representing approximately 11% of available resources. Four examples of the more significant areas examined in the period include:

a) Primary School Childcare Club

Following a request by the Head Teacher, Internal Audit carried out an investigation into alleged irregularities in the administration of childcare income at a Primary School childcare club. This investigation found that income from childcare vouchers had been withdrawn from the club bank account by a member of staff. Internal Audit has prepared a report and evidence pack for the Head Teacher and Human Resources for use in the forthcoming disciplinary hearing. Recommendations have been made by Internal Audit to strengthen procedures and controls at the school. These recommendations are also being considered by management in C.Y.P.S. in terms of their relevance to other schools and children's centres throughout the Borough.

b) Car Park Income

Following a request by the Parking Services Manager, Internal Audit investigated the loss of car park income during April and May 2011. This found that approximately £600 of cash had been lost over this period. It was not possible to establish the person or persons responsible. However, the review did identify several system weaknesses and recommendations have been made to strengthen procedures and controls.

c) Children's Home

Internal Audit received information regarding alleged financial irregularities in the administration of petty cash and children's monies at a Children's Home. Advice was provided to the Operational Manager for Children's Homes on the conduct of the investigation and recommendations were made to strengthen procedures and controls to help prevent future allegations arising.

8. Finance.

There are no financial implications arising from this report.

9. Risks and Uncertainties.

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

10. Policy and Performance Agenda Implications.

The strength of Internal Audit impacts upon the Council's internal control environment. A sound control environment is part of good governance, which is wholly related to the achievement of the objectives in the Council's Corporate Plan.

11. Background Papers and Consultation.

Detailed audit reports

Contact Names:

Colin Earl, Director of Audit and Governance, x22033
Marc Bicknell, Internal Audit Manager, x23290

Appendices
Appendix A: Audits Completed: April – July 2011
Appendix B: Summary of Internal Audit Responsive Work: April – July 2011

Appendix A

Audits Completed: April – July 2011

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Chief Executive's Directorate						
"Going Local" INTERREG Grant Claim	n/a	n/a	n/a	n/a	n/a	Adequate
Risk Management: Chief Executive's Directorate	2	1	1	0	0	Adequate
Children and Young People's Services Directorate						
Brampton Ellis Junior School	14	14	0	0	0	Adequate
Flanderwell Junior and Infant School	18	18	0	0	0	Adequate
Maltby St Mary's Catholic Primary School	17	17	0	0	0	Adequate
Rawmarsh Ryecroft Infant School	10	10	0	0	0	Adequate
Rawmarsh St Joseph's Catholic Primary School	22	22	0	0	0	Adequate
Rawmarsh Ashwood Primary School	12	12	0	0	0	Adequate
Swallownest Primary School	8	8	0	0	0	Adequate
Wath Victoria Junior and Infant School	16	16	0	0	0	Adequate
Wickersley St Alban's Primary School	22	22	0	0	0	Adequate
Dinnington Comprehensive School	28	28	0	0	0	Adequate
Looked After Children: Out of Borough Placements	2	2	0	0	0	Adequate
Devolved Capital Spending in Schools *	8	Awaiting reply	Awaiting reply	0	0	Adequate
Neighbourhoods and Adult Services Directorate						
Risk Management: Neighbourhoods and Adult Services	1	1	0	0	0	Adequate
Licensing Service	6	6	0	0	0	Adequate

Appendix A

Audits Completed: April – July 2011

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number of 3 * Recs Made	Number of 3* Recs Agreed	Opinion Adequate/ Inadequate
Environment and Development Services Directorate						
Risk Management: Environment and Development Services	11	11	0	0	0	Adequate
Carbon Reduction Commitment Energy Efficiency Scheme *	14	14	0	0	0	Adequate
Financial Services Directorate						
Risk Management: Financial Services Directorate	4	4	0	0	0	Adequate
Grants						
Housing Market Renewal Pathfinder Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Local Ambition Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Growth Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Stroke Usage Grant	n/a	n/a	n/a	n/a	n/a	Adequate
ICT Audit						
Data Back Up and Storage	5	5	0	0	0	Adequate
Domiciliary Carers and Warden Service Web Rostering System	2	2	0	0	0	Adequate

* Forwarded to Overview and Scrutiny Management Board for consideration

Appendix B

Summary of Internal Audit Responsive Work: April – July 2011

Description
Chief Executive's Directorate / Corporate
Certification of Timely Information to Citizens Grant Claim.
Advice provided on financial administration of Mayor's Charity in accordance with Charity Commission guidelines and 'best practice'.
Advice provided to ICT client function regarding the risks / control implications of using a 'cloud' based solution to support the Electronic Data Records Management System (EDRMS).
Children and Young People Services Directorate
Investigation into alleged irregularities in administration of childcare income at a Primary School (see above)
Advice provided regarding investigation of alleged financial irregularities and the strengthening of procedures at a Children's Home. (see above)
Compilation of response to a Freedom of Information request regarding payments made in respect of the Common Purpose 'Your Turn' programme.
Advice provided to a primary school on the requirements of Financial Regulations for Schools and the Fair Funding Scheme in respect of lease agreements.
Advice provided to a Children's Centre regarding payments made to families in need on behalf of a charity.
Advice provided to a Comprehensive School regarding correct procedures governing the payment, in exceptional circumstances, of pro-forma invoices.
Advice provided to a Primary School regarding correct procedures for making an ex-gratia payment to a member of staff whose car was vandalised whilst on official business.
Provided assistance with an investigation into a complaint made against the Extended Learning Services Section by a person who had sought to provide services to the Council.
Environment and Development Services Directorate
Investigation into loss of car park income (see above)
Advice provided regarding the requirements of Contract Standing Orders in relation to procurement of security services for Ulley Country Park.
Advice provided on the process for the disposal of floral displays previously used in Council buildings.
Investigation, following an anonymous 'phone call, of alleged misuse of a Council vehicle by a member of staff.
Advice provided to Asset Management on quotation / tender thresholds when dealing with aggregated value contracts.
Advice provided to Highways and Transportation regarding the competitive procurement requirements of Contract Standing Orders.
Advice provided to Parking Services regarding procedures for the refund of contract parking payments.
Advice provided to Asset Management regarding renegotiation of the Boston Castle contract.
Advice provided to Asset Management regarding the use of a Smartcard Security System at the new Riverside House civic offices.

Appendix B

Summary of Internal Audit Responsive Work: April – July 2011

Financial Services Directorate
Assistance provided to colleagues from Finance to ensure that there was a complete audit trail to evidence expenditure on the 2007 floods as part of an EU audit.
Advice provided to Director of Finance regarding procedures for production of cheque payments run in light of impending move to new office accommodation.
Neighbourhoods and Adult Services Directorate
Advice provided regarding financial controls in light of proposed introduction of appointeeships in Adult Social Services.
Advice provided on proposed developments to the care assessment process within the SWIFT system.
RBT
Advice provided on proposed changes to the system for making Council Tax refunds by cheque.
Advice provided to HR and Payroll on process for the recovery of a redundancy payment made to an incorrect bank account.

Agenda Item 5

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**28th September 2011**
3.	**Title:**	**Annual Treasury Management Report and Actual Prudential Indicators 2010/11**
4.	**Directorate:**	**Financial Services**

5. Summary

The annual treasury management report is a requirement of the Council's reporting procedures and covers the treasury activity for 2010/11. The report also covers the actual Prudential Indicators for 2010/11 in accordance with the requirements of the Prudential Code.

The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. During 2010/11 the Council received an annual treasury strategy in advance of the year and an annual report following the year describing the activity compared to the strategy (this report). In addition the Council also received a mid year treasury report following regulatory changes. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

6. Recommendation

Audit Committee is asked to approve the Annual Treasury Management Report.

7. Proposals and Details

The Strategic Director of Finance has delegated authority to carry out treasury management activities on behalf of the Council and this report is produced in order to comply with the CIPFA Code of Practice in respect of Treasury Management in Local Authorities and the "Prudential Code".

8. Finance

Treasury Management forms an integral part of the Council's overall financial arrangements.

9. Risks and Uncertainties

Regular monitoring will ensure that risks and uncertainties are addressed at an early stage and hence kept to a minimum.

10. Policy and Performance Agenda Implications

Effective treasury management will assist in delivering the Council's policy and performance agenda.

11. Background Papers and Consultation

CIPFA – Code of Practice for Treasury Management in the Public Services
Local Government Act 2003
CIPFA – Prudential Code

Contact Name: Derek Gaffney, Chief Accountant, ext 7422005 or 22005.
derek.gaffney@rotherham.gov.uk

Annual Report on the Treasury Management Service and Actual Prudential Indicators 2010/11

Executive Summary

During 2010/11 the Council complied with its legislative and regulatory requirements in terms of setting, monitoring and reporting on its prudential indicators for the year.

Indicators are set prior to the start of the financial year and reflect the known position at that time. Approved changes to the capital programme and its funding throughout the financial year, together with variations in treasury management activity, does mean that actual indicators for the year may vary from the initial projections made prior to the start of the financial year. However by regularly monitoring these indicators the Council is able to ensure the impact is known and managed through the Medium Term Financial Strategy.

The actual prudential indicators for 2010/11, with comparators, are as follows:

	2010/11 Actual £m	**2010/11 Revised Indicator £m**	**2010/11 Original Indicator £m**	**Restated 2009/10 Actual £m**
Capital Expenditure	99.635	109.141	110.651	151.357
Capital Financing Requirement: Non-HRA	294.410	297.528	294.709	276.946
HRA	284.865	288.544	286.346	273.459
Total excluding PFI and similar arrangements	579.276	586.072	581.499	550.405
Cumulative adjustment for PFI and similar arrangements	115.379	114.146	-	117.471
Total including PFI schemes and similar arrangements	694.655	700.218	-	667.876
	%	%	%	%
Financing Costs as a proportion of Net Revenue Stream: Non-HRA	8.61	9.10	10.40	8.35
HRA	14.20	15.07	15.28	14.86

The main reasons for the change in the actual indicators, from those originally set in March 2010 are as follows:

- Due to re-profiling actual capital expenditure in the year was less than anticipated. This change which led to a change in borrowing need gave rise to a reduction in the Capital Financing Requirement at the end of the year when compared to the estimated position.

- The impact of the reduced borrowing need and on-going prudent treasury management activity gave rise to corresponding reductions in the other indicators when compared to the estimated position.

The Strategic Director of Finance also confirms that borrowing was only undertaken for a capital purpose and the Statutory Borrowing Limit, the Authorised Limit, was not breached.

At 31 March 2011, the Council's external debt totalled £437.136m (£412.636m at 31 March 2010) and its investments totalled £2.846m (£15.979m at 31 March 2010).

At 31 March 2010, the Former South Yorkshire County Council external debt totalled £96.412m (£102.012m at 31 March 2010). The Former SYCC had no investments at that date (nil at 31 March 2010).

1. Introduction

1.1 This report summarises:

- the capital activity for the year;
- how this activity was financed;
- the impact on the Council's indebtedness for capital purposes;
- the Council's overall treasury position;
- the reporting of the required prudential indicators;
- debt activity; and
- investment activity.

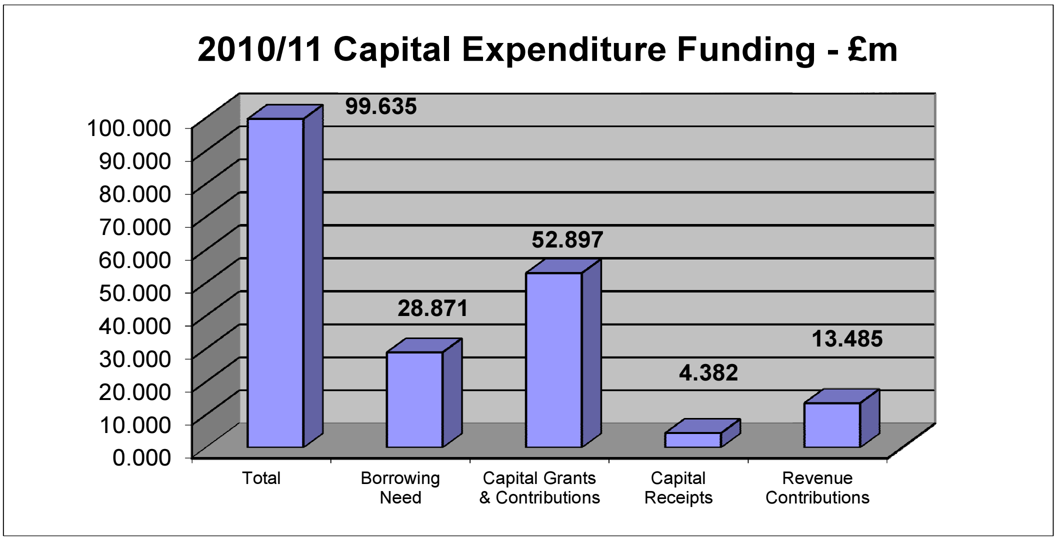
2. The Council's Capital Expenditure and Financing 2010/11

2.1 The Council undertakes capital expenditure on long term assets. These activities may either be:

- Financed immediately through capital receipts, capital grants etc.; or
- If insufficient financing is available the expenditure will give rise to a borrowing need.

2.2 Part of the Council's treasury activities is to address this borrowing need, either through borrowing from external bodies, or utilising temporary cash resources within the Council. The wider treasury activities also include managing the Council's cash flows, its previous borrowing activities and the investment of surplus funds. These activities are structured to manage risk foremost, and then optimise performance. The primary objective is security ahead of liquidity and then yield or return. Wider information on the regulatory requirements is shown in Section 8.

2.3 The actual capital expenditure forms one of the required prudential indicators. The graph below also shows how this was financed.



3. The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge for the Council's debt position. It represents 2010/11 and prior years net capital expenditure which has not yet been paid for by revenue or other resources.

3.2 The Non-HRA element of the CFR is reduced each year by a statutory revenue charge (called the Minimum Revenue Provision - MRP). The total CFR can also be reduced by:

- the application of additional capital resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

CLG Regulations require Full Council to approve an MRP Statement in advance of each year. Detailed rules have been replaced by a single duty to charge an amount of MRP which the Council considers 'prudent'. The Council approved the following revised MRP policy in relation to the charges for the 2010/11 as part of the Treasury Management Strategy for 2011/12 on 2 March 2011:

(a) The MRP charge in relation to borrowing for capital expenditure incurred prior to 2007/08 will be unaffected by the regulations;

(b) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by both supported and unsupported borrowing will be calculated using the expected useful life of the asset at the point the asset is brought into use; and

(c) The MRP charge in relation to capital expenditure incurred since 2007/08 where the expenditure is funded by a 'capitalisation directive' (e.g. equal pay) will be calculated on the basis of equal instalments over the specified period(s) set down within the regulations.

3.3 The Council's CFR for the year is shown below, and represents a key prudential indicator. A key accounting change in 2009/10 was the inclusion of the Council's PFI schemes and similar arrangements on the Council's balance sheet. This has the effect of increasing the Council's borrowing need, the CFR. No borrowing is actually required against these schemes as a borrowing facility is already included in the contract. The adjustments required were finalised during the 2009/10 accounts closedown and therefore were not reflected in the original indicator for 2010/11.

CFR (£m)	31 March 2011 Actual £m	31 March 2011 Revised Indicator £m	31 March 2011 Original Indicator £m	Restated 31 March 2010 Actual £m
Opening balance (excluding on-balance sheet PFI and similar arrangements)	550.405	549.472	549.194	475.478
Plus increase in borrowing need	38.327	48.004	43.556	83.333
Less MRP/VRP/Met Debt Principal Repayment	-9.456	-11.129	-11.251	-8.406
Closing balance (excluding on-balance sheet PFI and similar arrangements)	579.276	586.347	581.499	550.405
Closing balance (excluding on-balance sheet PFI and similar arrangements)	**579.276**	**586.347**	**-**	**550.405**
Plus cumulative PFI adjustments	115.379	114.146	-	117,471
Closing balance (including on-balance sheet PFI and similar arrangements)	**694.655**	**700.493**	**-**	**667.876**

3.4 Actual capital expenditure in 2010/11 which was funded by borrowing was less than had been estimated. As a result the Council's closing CFR was lower than that approved as the revised indicator for the year.

4. Treasury Position at 31 March 2011

4.1 Whilst the Council's gauge of its underlying need to borrow is the CFR, the Strategic Director of Finance and the treasury function can manage the Council's actual borrowing position by either:

- borrowing to the CFR (excluding the impact of PFI and similar contracts); or
- choosing to utilise some temporary internal cash flow funds instead of borrowing (under-borrowing); or
- borrowing for future increases in the CFR (borrowing in advance of need).

4.2 It should be noted that accounting practice defined by the Code of Practice requires financial instruments in the accounts (debt and investments etc.) to be measured in a method compliant with International Financial Reporting Standards. The figures in this report are based on the amounts borrowed and invested and so may differ from those shown in the final accounts by items such as accrued interest.

4.3 The expectation for 2010/11 had been that borrowing would have been mainly in line with the estimated borrowing need for the year whilst partly reducing the Council's 31 March 2010 under-borrowed position. The continued volatility in the financial markets was such that the most prudent approach was to continue to utilise temporary cash flow funds instead of borrowing. The Council's treasury position at the 31 March 2011 compared with the previous year was:

RMBC Treasury position	**31 March 2011**		**31 March 2010**	
	Principal £m	**Average Rate %**	**Principal £m**	**Average Rate %**
Fixed Interest Rate Debt *	326.636	5.07	316.636	5.23
Variable Interest Rate Debt **	111.000	4.13	96.000	3.94
Total Debt	437.636	4.83	412.636	4.93
Fixed Interest Investments	2.846	*** 0.00	15.979	4.05
Variable Interest Investments	0	0.00	0	0.00
Total Investments	2.846	0.00	15.979	4.05
Net borrowing position	**434.790**		**396.657**	

* Includes all debt where the interest rate is fixed for the whole of the following financial year
** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year
*** The investments shown represent the principal outstanding on the Council's Icelandic investments hence the average rate is shown as zero

4.4 Against the Council's Capital Financing Requirement (£579.275m), the Council's outstanding debt levels (£437.636m) are lower than this Requirement by approximately £142m due to the Council's prudent and sensible approach to utilise temporary cash flow funds rather than take out additional borrowings. A Council is generally allowed to borrow up to its CFR.

4.5 The Council's net borrowing position reflects the capital spend that is yet to be financed from revenue or other resources as it is to be repaid over a prudent and affordable period in line with the Council's Minimum Revenue Provision Policy.

4.6 The former SYCC's treasury position at the 31 March 2011 compared with the previous year was:

Former SYCC Treasury position	31 March 2011		31 March 2010	
	Principal £m	Average Rate %	Principal £m	Average Rate %
Fixed Interest Rate Debt *	96.412	5.92	102.012	5.83
Variable Interest Rate Debt **	0	0.00	0	0.00
Total Debt	96.412	5.92	102.012	5.83
Fixed Interest Investments	0	0.00	0	0.00
Variable Interest Investments	0	0.00	0	0.00
Total Investments	0	0.00	0	0.00
Net borrowing position	**96.412**		**102.012**	

* Includes all debt where the interest rate is fixed for the whole of the following financial year
** Includes all debt where the interest rate may be subject to interest rate variation on specified dates during the following financial year

5. Prudential Indicators and Compliance Issues

5.1 Some of the prudential indicators provide either an overview or specific limits on treasury activity. These are shown below:

5.2 **Net Borrowing and the CFR** - In order to ensure that borrowing levels are prudent over the medium term the Council's external borrowing, net of investments, must only be for a capital purpose. Net borrowing should not therefore, except in the short term, exceed the CFR for 2010/11 plus the expected changes to the CFR over 2011/12 and 2012/13. The table below highlights the Council's net borrowing position against the CFR and demonstrates that the Council has complied with this prudential indicator, i.e., the Council's net borrowings are lower than its CFR.

RMBC Treasury Position	31 March 2011 Actual £m	31 March 2011 Revised Indicator £m	31 March 2011 Original Indicator £m	Restated 31 March 2010 Actual £m
Net borrowing position	434.790	456.069	451.499	396.657
CFR (excluding PFI and similar arrangements)	579.275	586.347	581.499	550.405

5.3 **The Authorised Limit** - The Authorised Limit is the "Affordable Borrowing Limit" required by S3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2010/11 the Council has maintained gross borrowing within its Authorised Limit, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

Authorised Limit	**RMBC £m**	**Former SYCC £m**	**Total £m**
Original Indicator – Authorised Limit	624.303	102.012	726.315
Revised Indicator – Authorised Limit	604.615	102.012	706.627
Actual indicator – Maximum gross borrowing position – External Debt only	442.636	102.012	544.648
Actual indicator - Maximum gross borrowing position – External Debt plus PFI and similar arrangements	560.107	102.012	662.119

5.4 **The Operational Boundary** – The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached. The table below demonstrates that during 2010/11 the Council has maintained its borrowing position within its Operational Boundary, both excluding and including the impact of bringing PFI and similar arrangements on to the Council's Balance Sheet.

Operational Boundary for External Debt	**RMBC £m**	**Former SYCC £m**	**Total £m**
Original Indicator - Operational Boundary	579.487	102.012	681.499
Revised Indicator - Operational Boundary	553.370	96.412	649.782
Actual indicator - Average gross borrowing position - External Debt only	425.217	98.575	523.792
Actual indicator - Average gross borrowing position - External Debt plus PFI and similar arrangements	541.642	98.575	640.217

5.5 **Actual financing costs as a proportion of net revenue stream** - This indicator identifies the trend in the cost of capital (borrowing and the cost of other long term obligations but net of investment income) against the Council's Budget Requirement (net revenue stream) for the General Fund and budgeted income for the HRA.

5.6 Both indicators show a reduction reflecting an overall fall in borrowing costs. Whilst the share of these costs is approximately equal (as reflected by the respective CFRs) the HRA has a lower net revenue stream and therefore the impact on the indicator is greater.

Rotherham MBC	**2010/11 Actual**	**2010/11 Revised Indicator**	**2010/11 Original Indicator**
Financing costs as a proportion of net revenue stream:			
Non HRA	8.61%	9.10%	10.14%
HRA	14.20%	15.07%	15.28%

5.7 **Incremental impact of Capital Investment Decisions –** Two indicators are used to highlight the trend in cost arising from changes to the Council's capital investment plans:

- the impact on Council Tax Band D levels as already budgeted for within the Council's MTFS of changes to the General Fund capital programme, and
- the impact on weekly rent levels arising from changes in the housing capital programme

Rotherham MBC	**2010/11 Actual**	**2010/11 Revised Indicator**	**2010/11 Original Indicator**
Incremental impact of capital investment decisions on the Band D council tax	£19.47	£21.04	£20.59
Incremental impact of capital investment decisions on the Housing Rent Levels	£0.00	£0.00	£0.00

The incremental impact of capital investment decisions on the Band D council tax shows a decrease over the original projection for 2010/11. This reflects the revenue implications in 2010/11 of the lower borrowing need. In addition the proactive treasury management activity carried over from 2009/10 and continued in 2010/11 resulted in a reduction in borrowing costs due to the Council utilising temporary cash flow funds instead of borrowing. As expected, there is no incremental impact of capital investment on HRA rent levels.

5.8 **Treasury Management Indicators and Limits on Activity**

5.8.1 **Upper limits on fixed and variable interest rates as at 31 March 2011** – These indicators identify the maximum limits for fixed interest rate gross debt and for variable interest rates based upon the debt position, net of investments. The table confirms the Council remained within the limits set.

Rotherham MBC	**2010/11 Actual**	**2010/11 Revised Indicator**	**2010/11 Original Indicator**	**2009/10 Actual**
Upper limit on fixed interest rates	83.96%	100%	100%	89.19%
Upper limit on variable interest rates based on net debt	26.18%	30%	30%	23.09%

Former SYCC	**2010/11 Actual**	**2010/11 Revised Indicator**	**2010/11 Original Indicator**	**2009/10 Actual**
Upper limit on fixed interest rates	100%	100%	100%	100%
Upper limit on variable interest rates based on net debt	0%	30%	30%	0%

5.8.2 **Maturity structure of fixed rate borrowing during 2010/11** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing, and are required for upper and lower limits. The position as at 31 March 2011 is shown in the table below.

	RMBC				
	Original Indicator %		**Revised Indicator %**		**Actual %**
	Lower	Upper	Lower	Upper	
Under 12 months	0	20	0	20	3.93
12 months to 2 years	0	25	0	25	4.45
2 years to 5 years	0	30	0	30	8.11
5 years to 10 years	0	35	0	35	15.70
10 years to 20 years	0	40	0	40	4.45
20 years to 30 years	0	45	0	45	6.11
30 years to 40 years	0	50	0	50	1.31
40 years to 50 years	10	60	10	60	22.62
50 years and above	30	100	15	100	33.28

	Former SYCC				
	Original Indicator %		Revised Indicator %		Actual %
	Lower	Upper	Lower	Upper	
Under 12 months	0	20	0	0	0
12 months to 2 years	0	25	0	0	0
2 years to 5 years	0	30	0	0	0
5 years to 10 years	0	35	0	0	0
10 years to 20 years	0	40	0	85	79.58
10 years t0 11 years	-	-	0	25	20.42
20 years to 30 years	0	45	-	-	-
30 years to 40 years	0	50	-	-	-
40 years to 50 years	10	60	-	-	-
50 years and above	30	100	-	-	-

5.8.3 **Maximum funds invested for more than 364 days** – This limit is set to reduce the need for early sale of an investment and is based on the availability of funds after each year end. The position as at 31 March 2011 for the Council is shown in the table below. The Former SYCC had no investments at that date.

Rotherham MBC	2010/11 Actual £m	2010/11 Revised Indicator £m	2010/11 Original Indicator £m
Maximum funds invested for longer than 364 days	0	12	12
Cash Deposits	0	12	12
N.b. The above excludes any Icelandic investments due to be recovered after more than 364 days (£1.94m)			

6. Actual debt management activity during 2010/11

6.1 **Borrowing** - The loans drawn by Rotherham MBC were:

Lender	Principal	Type	Interest Rate	Maturity Years	Average rate
PWLB	£10,000,000	Fixed rate	3.17%	7.5 Years	
PWLB	£5,000,000	Fixed rate	2.18%	5.75 Years	
PWLB	£5,000,000	Fixed rate	2.82%	8.42 Years	
PWLB	£20,000,000	Fixed rate	3.46%	10 Years*	
Total:	£40,000,000				3.15%
* This loan is repayable by equal instalments of principal over 10 years					

6.2 This compares with a budget assumption of net borrowing of £87.3million. As explained earlier (para. 4.4) the most prudent approach in 2010/11 was to continue to utilise temporary cash flow funds instead of borrowing when appropriate. And with long term rates remaining relatively high the borrowing undertaken was restricted to short term debt and to minimise the on-going interest rate risk within the portfolio the opportunity was taken to take out fixed rate debt.

The average rate compares favourably with a 4.34% average for all PWLB fixed rate debt in 2010/11.

6.3 **Rescheduling** – No rescheduling took place in 2010/11 due to unfavourable market conditions.

6.4 **Repayment** – Three loans matured during the year as shown in the table below and these were effectively replaced during the year by the debt referred to in 6.1. The additional debt taken out was broadly in line with the borrowing requirement for the year thus the Council's under-borrowed position was maintained.

Lender	Principal	Type	Interest Rate	Average rate
PWLB	£5,000,000	Fixed rate	4.22%	
PWLB	£5,000,000	Fixed rate	1.55%	
PWLB	£5,000,000	Fixed rate	4.27%	
Total:	£15,000,000			3.35%

6.5 **Summary of Debt Transactions** – The overall position of the debt activity resulted in a fall in the average interest rate of 0.10%, from 4.93% to 4.83%. This contributed to an overall breakeven position on the capital financing budget when compared to the estimate.

6.6 **Former South Yorkshire County Council**, – One loan matured and there was no new borrowing or rescheduling during 2010/11

Lender	Principal	Type	Interest Rate
PWLB	£5,600,000	Fixed rate	4.33%

7. Investment Position

7.1 **Investment Policy –** The Council's investment policy is governed by DCLG Guidance, which was implemented in the annual investment strategy approved by Council on 3 March 2010. The investment activity during the year conformed to the approved strategy.

The Council maintained an average balance of £19.0m and received an average return of 0.44%. This outturn position compares with a budget assumption of an average of £24.1m investment balances at a 1.50% interest rate.

The average return was lower than the estimate due to the lower investment balances and the continued reduced investment returns available. When compared to the local measure of performance the average return was marginally above the average 7 day LIBID rate for 2010/11 of 0.43%.

8. Regulatory Framework, Risk and Performance

8.1 The Council's treasury management activities are regulated by a variety of professional codes and statutes and guidance:

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken (although no restrictions were made in 2009/10);
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act the CLG has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

8.2 The Council has complied with all of the above relevant statutory and regulatory requirements which limit the levels of risk associated with its treasury management activities. In particular, the adoption and implementation of the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable. Treasury investment practices are governed by the primary objectives of security ahead of liquidity and then yield. Revised operational guidelines enhanced the weighting towards security still further at the expense of yield or return.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	**Meeting:**	**Audit Committee**
2.	**Date:**	**28 September 2011**
3.	**Title:**	**Statement of Accounts 2010/11**
4.	**Directorate:**	**Financial Services**

5. Summary

To advise Members of the matters arising from the external audit of the Council's 2010/11 Statement of Accounts and in acknowledging these findings request that the Audit Committee approve the Letter of Management Representations.

To seek Members' approval of the audited Statement of Accounts 2010/11.

6. Recommendations

1. **That the Audit Committee accepts the Auditor's ISA260 report to those charged with governance attached at Appendix 1.**

2. **That the Audit Committee approves the Statement of Accounts 2010/11 attached at Appendix 2.**

3. **That the Audit Committee approves the Letter of Management Representations attached at Appendix 3.**

7. Proposals and Details

The Accounts and Audit Regulations required the Council's 2010/11 Statement of Accounts to be certified (in an unaudited form) by the Strategic Director of Finance as the Responsible Financial Officer no later than 30 June.

The Statement has then been subject to audit, any necessary changes have been discussed and agreed between the Section 151 Officer and the Auditor and the Statement, in its revised form, requires approval by Members prior to publication before the end of September 2011.

The Auditor's ISA 260 report (attached at **Appendix 1** to this report) sets out in detail the outcomes from the audit including any changes made to the unaudited Statement of Accounts 2010/11.

Overall, the report is an extremely positive one. As noted on page 3 of the report, a very small number of minor presentational changes were identified all of which have been corrected in the final version of the Statement of Accounts presented to Audit Committee for approval at **Appendix 2**.

None of the presentational changes made affect the financial performance or financial position of the Council reported in the unaudited Statement of Accounts approved by the Strategic Director of Finance on the 30 June 2011.

In addition, the report confirms that:

- **there are no internal control weaknesses in the Council's financial systems and procedures** were identified (other than those previously reported in the interim audit report presented to Audit Committee on 20 July 2011).

- **there are no other matters which need to be reported to Audit Committee** (see page 13 of the report).

- the audit process was fully supported through **good quality working papers and timely provision of responses to audit queries** (see page 12 of the report).

- **the one recommendation made in last year's ISA 260 report has been addressed** in preparing the 2010/11 Statement of Accounts (see page 16 of the report).

As a result of these positive assurances, KPMG anticipate being able to give an **unqualified opinion by 30 September** that the Council's Statement of Accounts provides a true and fair view of its financial position and income and expenditure for the year ended 31 March 2011 (see page 3 of the report).

These findings are excellent and very gratifying given that the 2010/11 Statement of Accounts is the first to be prepared under International Financial Reporting Standards (IFRS). The conversion to IFRS has required major changes to the way in which certain items are accounted for and to the way in which the Council's financial performance and financial position is reported. Both CIPFA and the Audit Commission have, over a long period, emphasised the many challenges to achieving a successful transition, and the need for it to be properly planned, managed and resourced.. The audit demonstrates that this has been successfully achieved and has been formally recognised in KPMG's report where the Council has been **complemented on its proactive approach** to the conversion process.

Achieving these excellent outcomes for the Council is testament to the "dedication and commitment" of all staff who have been engaged with the IFRS conversion and statement of accounts production process both within Financial Services and other Directorates (in particular, EDS Valuation Team) who have had a key role to play. It also reflects the benefit of officers undertaking early liaison meetings with the External Auditors to discuss and seek agreement to potential accounting issues affecting the 2010/11 Statement of Accounts (see pages 8 to 11 of the report)

In order for KPMG, LLP to complete their audit and satisfy International Auditing Standards, the Council is required to provide them with a written Letter of Management Representation from those charged with governance. Appropriate enquiries have already been made with officers of the Council to confirm the representations made. Appendix 3 attached to this report is the Letter of Management Representations in the format prescribed by KPMG, LLP to be approved by the Audit Committee.

8. Finance

The Statement of Accounts 2010/11 presents a true and fair view of the Council's financial position and its income and expenditure for the year ended 31 March 2011. In responding to audit matters raised by KPMG, LLP **no changes have been made to the 2010/11 outturn revenue position and reserves of the Council** previously reported to Cabinet in July.

9. Risks and Uncertainties

Any outstanding issues have been included in the ISA260 report.

10. Policy and Performance Agenda Implications

These issues are disclosed in the Auditor's ISA260 report.

11. Background Papers and Consultation

External Auditor's ISA260 Report 2010/11 (Appendix 1)
Audited Statement of Accounts 2010/11 (Appendix 2)
Letter of Management Representation (Appendix 3)

Contact Name: *Derek Gaffney, Chief Accountant, ext 7422005 or 22005, derek.gaffney@rotherham.gov.uk*

cutting through complexity™

Report to those charged with governance (ISA 260) 2010/11

Rotherham Metropolitan Borough Council

15 September 2011

Contents

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

Introduction

This report summarises:

- **the key issues identified during our audit of Rotherham Metropolitan Borough Council's ('the Authority's) financial statements for the year ended 31 March 2011; and**
- **our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you in July, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in July.

This report focuses on the final two stages: substantive procedures and completion.

Our final accounts visit on site took place between August and September. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included:

- work to address the specific risk areas identified; and
- Consideration of our work on Financial Resilience and arrangements for securing Value for Money.

Structure of this report

This report is structured as follows:

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

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified no significant audit adjustments however there is one minor adjustment relating to the disclosure of HRA rent arrears which has been corrected by the Authority in the Audited Statement of Accounts. We have identified no control weaknesses in addition to those that we reported from our interim communication in July 2011.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas, which the Authority have appropriately addressed. These specific risks included: ▪ ***IFRS Restatement*** – The Authority have produced a Statement of Accounts that comply with IFRS and the Local Government Code. Given the shear size of the challenge faced in converting the Statement of Accounts to IFRS, Officers have done an excellent job. There were a few immaterial variances that we identified during our testing that have been fully addressed by Officers and which demonstrate the proactive approach that the Authority took to the conversion process. As a result of early liaison with officers throughout the year we were able to agree with the processes and critical judgements made by officers in their conversion to IFRS prior to our final audit visit taking place. ▪ ***Reintegration of 2010 Rotherham Ltd*** – The decision to reintegrate the ALMO which was made on the 23 February has resulted in an additional £9.2m of liabilities being recognised in the Authority accounts. This included: ▪ Net Trading Liability [£3.2m] – As at 31 March 2011 the ALMO had net trading liability of £3.2m which the Authority have committed to funding through the decision to reintegrate. ▪ Pension Liability [£5.4m] – The Authority have included the ALMO pension liability with its own for the current financial year. This is due to the ALMO staff being TUPE back to the Authority on reintegration. The liability will be incorporated into the Authority's and settled in future years through the ongoing employer pension contributions determined triennially by SYPA. ▪ Pension Strain Costs [£0.6m] – This is the additional costs required to be made to the Pension Authority due to restructuring within the ALMO. These figures are included within the Authority creditor balance with the valuation provided by SYPA. As these liabilities were already included within the Group accounts the overall financial exposure of the Authority has not increased. The effect has simply been that these liabilities are now included on the Authority's single entity balance sheet as a result of the decision to reintegrate the ALMO function.

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Headlines (continued)

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

Critical accounting matters (continued)	▪ ***Pension Liability*** – There has been a £73.2m reduction in the pension liability during the year which is detailed on page 9 of the report. This is substantially represented by the change in indexation assumption from RPI to CPI [£53m] and actuarial gains on the pension assets [£34.1m]. The treatment of the pension liability is in line with the Code and relevant LAAP bulletins.
Accounts production and audit process	Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. Given the challenges faced by the Authority with regards to having to convert their financial statements to IFRS and the restructure within the finance team which has been ongoing throughout the final audit visit, the Officers commitment and dedication is commended. As a result of the restructure mentioned, Officers should begin to plan as early as possible for the 2011/12 close down process given the potential staff changes within the wider finance team. The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. This year we are asking for an additional, specific representation in relation to the calculation of the Authorities Equal Pay provision. The Equal Pay provision is an amount of money set-aside by the Authority to settle claims made against it in relation to the Equal Pay Act. The amount of the provision has decreased in year however is subject to a significant amount of estimation and judgement. This is because the Authority must estimate the number and value of claimants who have been disadvantaged in relation to protected pay agreements. Due to the significance of the value and the amount of judgement required in setting this provision we are seeking the specific assurance of management that this value is materially correct. Officers believe that, given the available information at the time of signing the Statement of Account, this is the case. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Headlines (continued)

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

VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have assessed the Authority against the two criteria identified by the Audit Commission: ■ Securing financial resilience; and ■ Securing economy, efficiency and effectiveness. To do this we have held meetings with Officers and reviewed a wide range of documentation and arrangements across the Authority in order to come to our conclusion. As part of this process we have considered a number of major strategic decisions / schemes that the Authority have faced and continue to face as part of our VFM work. As part of this work we have reviewed the reintegration of 2010 Rotherham Ltd, the move to increasing the number of shared services that the Authority are involved in and the latest position on the combined waste PFI project. These areas have provided some strong evidence of innovation, service review and cost benefit analysis to support our VFM opinion. Furthermore we have reviewed the Authority's response to the Ofsted notice initially issued in December 2009 and then updated in December 2010. Whilst the Children's and Young People's Service still faces challenges in driving improvements through and managing its budget pressures the Authority are acutely aware of this and continue to manage this closely. We have also considered the Visions of China project that has recently been announced. Whilst this does not have an impact in the current period of review for the VFM conclusion it is an area that will be prominent in future assessments therefore should be managed closely by the Authority.

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Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a number of presentational issues that have been adjusted by management, however they have no impact upon the general fund.

The table left highlights key figures from the Statement of Account and shows that post audit there has been no change in values.

Movements on the General Fund 2010/11

£m	Pre-audit	Post-audit
Surplus or (deficit) on the provision of services	(587)	(587)
Adjustments between accounting basis & funding basis under regulations	(2,507)	(2,507)
Transfers to/ from earmarked reserves	5,446	5,446
Increase/decrease in General Fund	**2,352**	**2,352**

Balance Sheet as at 31 March 2011

£m	Pre-audit	Post-audit
Property, plant and equipment	1,173,899	1,173,899
Other long term assets	49,358	49,358
Current assets	61,675	61,675
Current liabilities	(131,519)	(131,519)
Long term liabilities	(803,738)	(803,738)
Net worth	**349,675**	**349,675**
General Fund	(11,230)	(11,230)
Other reserves	(338,445)	(338,445)
Total reserves	**(349,675)**	**(349,675)**

Proposed opinion and audit differences (continued)

During the course of the audit we have identified no audit adjustments that impact upon the General Fund or HRA.

We did identify a small number of presentation changes that were required which have been agreed by officers.

The wording of your Annual Governance Statement accords with our understanding.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- Note 10 Rent Arrears – The 2010/11 rent arrears were shown net of prepaid rents which is inconsistent with the prior year. This has been adjusted in the audited Statement of Account. The total presentational adjustment is £387k.

It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Section three – Financial Statements

Critical accounting matters

We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

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

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing these key risks. We highlighted the progress that had been made in responding to these risks.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
IFRS Restatement	The Statement of Account 2010/11 is the first year of accounting under International Financial Reporting Standards [IFRS]. This has required significant planning, resource allocation and judgement to ensure that the Authority are fully compliant.	We have maintained regular dialogue with Officers throughout the year to ensure that they have taken a reasonable and consistent approach to the IFRS restatement process. Officers at the Authority took an early proactive approach to this conversion process, as previously reported, and this has clearly paid dividends. Officers sought early guidance from KPMG on their proposed adjustments as a result of IFRS which meant that there has been early dialogue and agreement on many issues prior to the final audit visit starting. Our review of the IFRS restated Statement of Accounts has highlighted that there have been no material errors which is commendable given the scale of the conversion process and only a small number of minor adjustments were required. There has been a number of critical judgements adopted by officers in deriving the restatements however we have reviewed and agreed these as being appropriate and in line with the relevant accounting standards and guidance issued. The finance function have operated effectively in ensuring that they met the reporting timeframes and produced good quality working papers and financial adjustments throughout the whole process.

Critical accounting matters (continued)

The decision to reintegrate the ALMO has resulted in an additional £9.2m of liability being recognised in the single entity Authority accounts.

These liabilities were already included within the Group accounts therefore overall the Authority's financial exposure has not increased.

Key audit risk	Issue	Findings
Reintegration of 2010 Rotherham Ltd	On the 23 February 2011, Cabinet approved reintegration of the housing management function which would make 2010 Rotherham Ltd dormant. The transfer will commence when the current management agreement ceases in June 2011, however this has an impact upon the Authority balance sheet for 2010/11. This arises as the Authority have effectively committed to take on the ALMO assets and liabilities prior to year end.	Prior to the production of the statement of accounts we held a range of meetings to confirm the liabilities that the Authority should recognise in the current financial period as a result of the reintegration of the ALMO. Again this demonstrates the proactive approach adopted by the Authority. We can confirm that all the relevant liabilities have been appropriately recognised as follows: ▪ Net Trading Liabilities [£3.2m] – As at 31 March 2011 the ALMO had net trading liability of £3.2m which the Authority have committed to funding through the decision to reintegrate. This has been recognised as a short term creditor in the Statement of Account. ▪ IAS19 Pension Liability [£5.43m] – The Authority have included the ALMO pension liability with its own for the current financial year. This is due to the ALMO staff being TUPE back to the Authority on reintegration. The liability will be incorporated into the Authority's and settled in future years through the ongoing employer pension contributions determined triennially by SYPA. ▪ Pension Strain Costs [£0.6m] – This is the additional costs required to be made to the pension authority due to restructuring within the ALMO. These figures are included within the Authority creditor balance with the valuation provided by SYPA. We have identified no further entries that should be included within the single entity financial statements.

Critical accounting matters (continued)

We have reviewed the Authority's approach to asset revaluations and identified one performance improvement recommendation as outlined in Appendix 1.

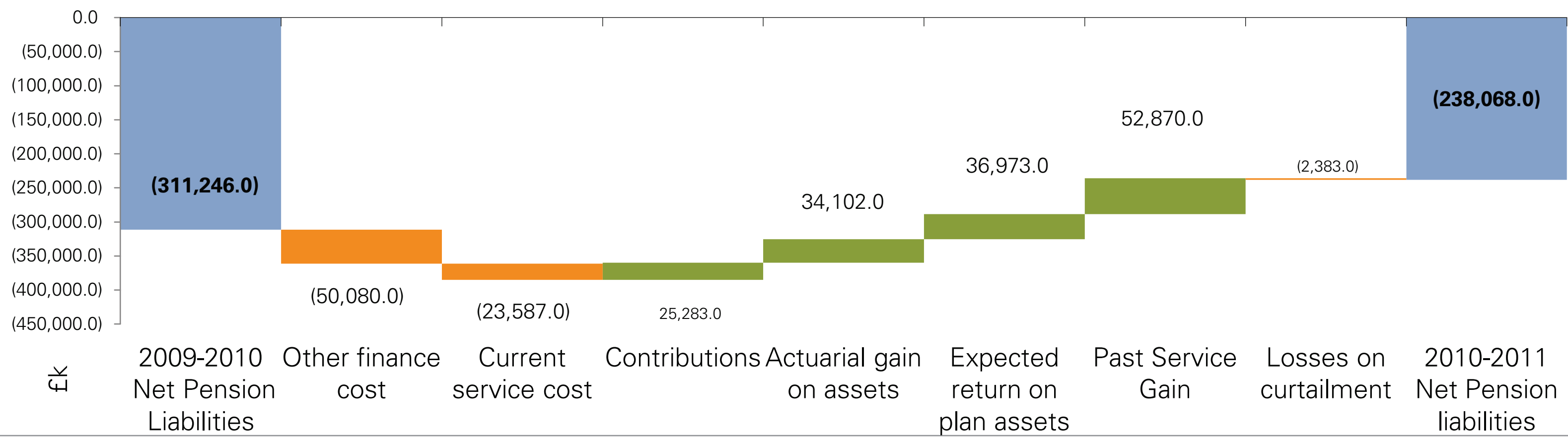
Key audit risk	Issue	Findings
Valuation of Assets	The Authority have made a number of material impairments over the past two accounting periods as a result of economic conditions. In 2009/10, we also reported the need to undertake a detailed impairment review of the leisure PFI. As a result, we will focus additional effort upon this area of the financial statements.	We have reviewed the Authority's approach to asset revaluations and can conclude that the process of impairment review and revaluations in year has been effective. All the schemes subject to revaluation in year have been appropriately considered by the Valuer. In 2009/10 we included a recommendation in relation to potential indicators of impairment in relation to the Leisure PFI. We have considered the impairment review of the leisure PFI and confirm that a downward revaluation of £4.03m has been reflected in the 2010/11 financial statements.

Critical accounting matters (continued)

There has been a substantial decrease in the Authority's pension liability during the year.

Key audit risk	Issue	Findings
	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.	The Authority pension liability has decreased in year by £73.2m which is illustrated in the graph below. The key movements in year relate to: ▪ Past Service Gain [£53.0m] – This relates to the change in indexation assumption from RPI to CPI. This has been accounted for through the Comprehensive Income Statement in line with the Urgent Issues Task Force [UITF] abstract 48 and advice received through CIPFA. ▪ Actuarial Gain on Assets [£34.1m] – This is a judgemental gain which has been suggested by the scheme Actuary, Mercers, and arises due to more optimistic assumptions. We agree with the treatment adopted by Officers and the assumptions employed by the Actuary to the pension liability and have raised no concerns over this significant area.

Pension Bridge – Movement in the IAS 19 Pension Liability



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Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has ensured that it has maintained a consistent standard in its production of the Statement of Account to that which we observed in the prior year. This is in the context of the increased burden relating to IFRS and the additional accounting work involved within the process. We believe that the Authority have a challenge in the next 12 months to ensure that the financial services team have the appropriate training and understanding of the audit process given the transformation of the structure.
Completeness of draft accounts	In accordance with statutory requirements, the Authority published its unaudited Statement of Account by 30 June 2011. We received a complete set of draft accounts on 5th July 2011. The Authority have made a number of presentational changes as a result of our review however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in January 2011, set out our working paper requirements for the audit. The central finance team provided, or were able to provide on request, working papers which fully addressed our line of enquiry.
Response to audit queries	Officers provided timely responses to ad hoc requests and queries which we raised throughout the audit without exception.

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Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Chief Accountant. We require a signed copy of your management representations before we issue our audit opinion.

We have requested representation over the following area of material judgement:

- Equal Pay Provision – The Authority recognise a provision which relates to future claims based upon a probability of receiving equal pay claims. This is subjective given uncertainty over the potential value and likelihood of receiving future claims.

Other matters

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

New VFM audit approach

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

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

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.

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.

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

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.

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New VFM audit approach (continued)

We have tailored our VFM work to the areas where there has been substantial change during the year.

There is some strong evidence to strategic vision to secure VFM and cost benefit analysis.

We have used our cumulative knowledge of the Authority from our previous VFM work and regular dialogue with Officers to ensure that our approach to VFM has been tailored and focussed towards specific risks that the Authority are facing.

During this process we have held a range of meetings with Senior Officers, prepared VFM profiles benchmarking performance with nearest neighbours, reviewed a range of Cabinet reports and reports commissioned on behalf of Cabinet, and reviewed the Authority plans for ensuring financial resilience.

The outcome of this work is summarised below:

Consideration of Other Independent Reviews

As part of our VFM approach we have reviewed the Authority's response to the Ofsted notice issued as part of the Children's and Young People's Service (CYPS) review in December 2009 and then updated in December 2010. Whilst the CYPS still faces challenges in driving improvements through and managing its budget pressures particularly in this area the Authority are acutely aware of this and continue to manage this closely.

There have been no additional other independent reviews undertaken by the Audit Commission or other review agencies in this period.

Specific risks

To support our VFM opinion we have considered a number of major strategic decisions / schemes that the Authority are currently managing. The areas considered include:

- *Reintegration of 2010 Rotherham Ltd* - We have reviewed the information that has been presented to Cabinet and the rationale behind the decision to reintegrate the ALMO. There is strong evidence of cost benefit analysis and investment appraisal as part of this decision making as well as consideration of the service provision. This enabled us to obtain strong evidence in relation to both financial resilience and securing value for money.

- *Shared Service Opportunity* – Whilst some cost savings have been achieved through greater shared service working in year the Authority continue to monitor this area seeking additional opportunities. This demonstrates the Authority's vision to work closely with their neighbours to improve service delivery and VFM. This has demonstrated that the Authority are looking to diversify income and are considering its relationships with stakeholders in order to continually drive VFM.

  This will be an area that we reconsider in future years as potential vehicles for delivering VFM.

- *Waste PFI* – We have reviewed the progress in year in relation to the planned Waste PFI Partnership with Doncaster and Barnsley Councils. The impact of cost savings attached to this project will be assessed in future periods however this is a strong example of shared working within the region.

- *Visions of China* - We have also considered the Visions of China project that has recently been announced. We have had initial dialogue with officers regarding this project and have reviewed the Cabinet minutes on this topic. Whilst this does not have any impact in the current period of review for the VFM conclusion it is an area that will be prominent in future assessments therefore should be managed closely by the Authority.

Appendix 1: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10.*

The progress against control issues identified from 2009/10 audit were reported in our 2010/11 interim report presented in July 2011.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	Nil

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	● (two)	**Leisure PFI Valuation** 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. During the year the Authority had conducted a desktop valuation to confirm the values in the original PFI model. The desktop review highlighted a potential impairment of £3.987 million however the Authority did not adjust the carrying value of the PFI to reflect this in the accounts.	We suggest 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. **Jon Baggaley / Andy Sidney** **31 March 2011**	A full valuation of the Leisure PFI was undertaken during 2010/11. This provided a downward revaluation of £4.03m which has been reflected in the Statement of Account 2010/11.

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Appendix 2: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

KPMG

cutting through complexity™

Appendix 3

Financial Services
Council Offices, Doncaster Gate, Doncaster Road,
Rotherham, South Yorkshire, S65 1DW

Tel: (01709) 822002 Fax: (01709) 822008
E-mail: Andrew.bedford@rotherham.gov.uk
Email the Council for **free** @ your local library!

28 September 2011

KPMG LLP
1 The Embankment
LEEDS
LS1 4DW

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Rotherham Metropolitan Borough Council (the Authority), for the year ended 31 March 2011, for the purpose of expressing an opinion as to whether these:

i. give a true and fair view of the financial position of the Group and of the Authority as at 31 March 2011 and of the Group's and the Authority's expenditure and income for the year then ended; and

ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

These financial statements comprise the Authority and Group Movement in Reserves Statements, the Authority and Group Comprehensive Income and Expenditure Statements, the Authority and Group Balance Sheets, the Authority and Group Cash Flow Statements, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

We confirm that the representations the Authority makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing us:

Appendix 3

Financial statements

1. We have fulfilled our responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Group and of the Authority as at 31 March 2011 and of the Group's and the Authority's expenditure and income for the year then ended; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

3. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 require adjustment or disclosure have been adjusted or disclosed.

4. In respect of the restatements arising from the restatement to IFRS accounting, we confirm that the restatement is appropriate

Information provided

5. We have provided you with:

- access to all information of which we are aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and
- unrestricted access to persons within the Authority and Group from whom you determined it necessary to obtain audit evidence.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. We acknowledge our responsibility for such internal control as we determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, we acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud. Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. We have disclosed to you all information in relation to:

(a) Fraud or suspected fraud that we are aware of and that affects the Authority and its Group and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements. Further, we have disclosed to you and have appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

10. We have disclosed to you the identity of the Authority's and its Group's related parties and all the related party relationships and transactions of which we are aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

    Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

11. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with our knowledge of the business.

Appendix 3

We further confirm that:

(a) all significant retirement benefits, including any arrangements that:

- are statutory, contractual or implicit in the employer's actions;
- arise in the UK and the Republic of Ireland or overseas;
- are funded or unfunded; and
- are approved or unapproved, have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

12. We confirm that we have provided you with all relevant information regarding the following:

(a) Equal Pay Provision – The Authority are confident that the estimated equal pay costs and associated probability underpinning volume of claims is reasonable and does not provide a material under or over provision based upon available information.

This letter was tabled and agreed at the meeting of the Audit Committee on 28 September 2011.

Yours faithfully,

Chair of the Audit Committee

Strategic Director of Finance

Appendix A to the Management Representation Letter of Rotherham Metropolitan Borough Council: Definitions

Financial Statements

A complete set of financial statements comprises:

- Movement in Reserves Statement for the period
- Comprehensive Income and Expenditure Statement for the period
- Balance Sheet as at the end of the period
- Cash Flow Statement for the period
- Notes, comprising a summary of significant accounting policies and other explanatory information, and
- Balance Sheet as at the beginning of the earliest comparative period (ie a third Balance Sheet) when an authority applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements.

A local authority is required to present group accounts in addition to its single entity accounts where required by chapter nine of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11.

A housing authority shall present:

- a HRA Income and Expenditure Statement; and
- a Movement on the Housing Revenue Account Statement.

A billing authority shall present a Collection Fund Statement for the period showing amounts required by statute to be debited and credited to the Collection Fund.

An Authority is required to present any other statements which an authority is required by any statutory provision to keep a separate account.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

a) was available when financial statements for those periods were authorised for issue, and

b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

Related party

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if the related party entity and another entity are subject to common control.

Related parties include:

a) entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the authority (i.e. subsidiaries);

b) associates;

c) joint ventures in which the authority is a venturer;

d) an entity that has an interest in the authority that gives it significant influence over the authority;

e) key management personnel, and close members of the family of key management personnel; and

f) post-employment benefit plan (pension fund) for the benefit of employees of the authority, or of any entity that is a related party of the authority.

Key management personnel are all chief officers (or equivalent), elected members, chief executive of the authority and other persons having the authority and responsibility for planning, directing and controlling the activities of the authority, including the oversight of these activities.

The following are deemed not to be related parties by the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2010/11:

a) providers of finance in the course of their business in that regard and trade unions in the course of their normal dealings with an authority by virtue only of those dealings; and

b) an entity with which the relationship is solely that of an agency.

Related party transaction

Related party transaction is a transfer of resources or obligations between related parties, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the authority or the government of which it forms part.