

AUDIT COMMITTEE

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

Date: Wednesday, 14 March 2012

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 15th February, 2012 (herewith) (Pages 1 - 4)
4. Closure of the 2011/12 Accounts (report herewith) (Pages 5 - 10)
5. External Audit Plan 2011/12 (report herewith) (Pages 11 - 37)
6. Review of Progress Against the Internal Audit Plan for Ten Months ending 31st January, 2012 (report herewith) (Pages 38 - 50)

AUDIT COMMITTEE
15th February, 2012

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

Also in attendance were Steve Clark and Rashpal Khangura (KPMG).

An apology for absence was received from Councillor Sangster.

P36. MINUTES OF THE PREVIOUS MEETING HELD ON 18TH JANUARY, 2012

Resolved:- That the minutes of the previous meeting held on 18th January, 2012 be agreed as a correct record.

P37. AUDIT AND INSPECTION RECOMMENDATIONS UPDATE REPORT

Consideration was given to a report presented by Sue Wilson, Performance and Quality Manager, which summarised the progress against recommendations from across all key external audits and inspections of Council services.

The report was intended to provide a high level analysis of progress with a particular focus on outstanding recommendations and new inspections since the date of the last report in October, 2011.

The Audit Committee noted that since the last report:-

- there have been no new inspections or external assessments
- the Children's Services Assessment graded Children and Young People's Services as 'Adequate'
- external peer challenge of Children and Young People's Services identified 6 Strengths and 5 Areas for Consideration
- currently 8 action plans relating to Inspection and Audit recommendations which were still "active" in the authority (i.e. contain outstanding recommendations which were still relevant)
- across the action plans 3 recommendations had been completed since the last report and 10 remained outstanding

Information was provided in answer to a number of questions.

Resolved:- That the progress achieved against outstanding actions be noted.

P38. PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT AND INVESTMENT STRATEGY 2012/13 TO 2014/15

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

- The Prudential Indicators and Limits for 2012/13 to 2014/15 (Appendix A)
- A Minimum Revenue Provision (MRP) Statement which sets out the Council's policy on MRP (Appendix A)
- An Annual Treasury Management Strategy in accordance with the CIPFA Code of Practice on Treasury Management including the Authorised Limit (Appendix B)
- An Investment Strategy in accordance with the CLG investment guidance (Appendix B)

The proposed Treasury Management and Investment Strategy sought to minimise the risks inherent in operating a Treasury Management function during the difficult economic and financial conditions.

Operational Treasury Management Guidelines would continue to be kept in place and reviewed to ensure they were appropriate given the circumstances faced, supported by regular monitoring to ensure that any risks and uncertainties were addressed at an early stage and hence kept to a minimum.

Andrew Bedford, Strategic Director of Resources, advised that this was the Annual Strategy Report and showed good performance in a difficult economic climate. Information would be updated to show the latest position in reports to be made to the Cabinet on 22nd February, 2012.

Resolved:- (1) That the updated Treasury Management Code of Practice be approved.

(2) That the prudential indicators and limits for 2012/13 to 2014/15 as submitted be approved.

(3) That the Minimum Revenue Provision Statement as submitted be approved.

(4) That the Treasury Management Strategy for 2012/13 to 2014/15 and the Authorised Limit Prudential Indicator as submitted be approved.

(5) That the Investment Strategy for 2012/13 to 2014/15 as submitted be approved.

P39. COMMUNITIES AND LOCAL GOVERNMENT - RESPONSE TO THE CONSULTATION ON THE FUTURE OF PUBLIC AUDIT

Consideration was given to a report presented by Colin Earl, Director of Audit & Asset Management which referred to the Government's position on the future of local public audit, following the consultation carried out during Summer 2011.

Most of the original proposals were to be implemented following a consensus in favour of the proposals. However, there was one notable exception where proposals were not supported leading to a change in mind by the Government.

This related to proposals regarding the constitution of Audit Committees. Rotherham Council, as with many responders, disagreed with proposals to establish Audit Committees with independent chairs and a majority of independent members. Following the consultation, the Government proposed to leave arrangements for Audit Committees as there they were currently.

The Government did, however, intend to set up independent appointment panels who would be given other responsibilities that were originally planned to be given to Audit Committees, including advising on who councils should appoint as their external auditors, agreeing any non-audit work to be done by external auditors and holding 'prescribed person' status for the receipt of whistleblowing complaints (n.b.: prescribed person meant independent of the parent organisation).

Most of the proposals included in the consultation paper included logical proposals for the future of public audit following the abolition of the Audit Commission.

Resolved:- That the Government's proposals relating to the future of local public audit, following the consultation completed during Summer 2011 be noted.

P40. KPMG GRANTS REPORT 2010/11

Consideration was given to a report presented by Derek Gaffney, Chief Accountant, which highlighted the matters arising from the external audit of the Council's 2010/11 Government Grant Claims and Returns.

There were no outstanding risks and uncertainties as all 2010/11 Government grant claims and returns had been submitted and audited.

Resolved:- (1) That the external auditors report be noted.

(2) That the good performance of the Authority in preparing and submitting its 2010/11 claims and returns be noted.

P41. CORPORATE RISK REGISTER

Consideration was given to a report presented by Colin Earl, Director of Audit and Asset Management, which outlined the current corporate risk register summary highlighting the risks associated with the Council's most significant priorities and projects, and actions being taken to mitigate those risks.

The Council's key current risks continued to relate to the financial pressures faced by the Council. The report summarised the management actions that were being taken to mitigate these and other risks in the register.

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

The Committee reviewed each risk and information was provided in response to various questions.

Councillor Gilding asked how much it had cost the Council to terminate the RBT Contract early.

Councillor Gilding was provided with information on this and informed that the Council was to save £2.8m approximately per annum following the early completion of the Contract.

Resolved:- (1) That the corporate risk register summary as submitted be noted.

(2) That the current assessment of the Council's top four corporate risks be noted.

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS
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1.	Meeting:	Audit Committee
2.	Date:	14 March 2012
3.	Title:	Closure of Accounts 2011/12
4.	Directorate:	Resources

5. Summary

The Council's annual Financial Statements are the primary means by which local authorities are accountable to local and national stakeholders. It is therefore important that the Council's accounts are prepared in accordance with recognised accounting standards and can be relied upon by users of the accounts.

As highlighted in KPMG's 2011/12 external audit plan, the Council has a record of efficient and well-controlled closedown and accounts preparation.

The Resources Directorate is keen to maintain the high standard of financial reporting but there remain significant challenges to repeating this in 2011/12.

This report brings to Members attention the main changes to accounting standards and disclosure requirements in 2011/12; their effect on the Council's accounting policies; and, the project management arrangements that will be employed to secure timely closure and produce 2011/12 Financial Statements that are fully compliant with the Accounting Code.

It also reminds Members that the Audit Committee will need to formally approve the audited Financial Statements at its September meeting and asks Members whether they wish to receive the unaudited Financial Statements and Annual Governance Statement for information.

6. Recommendations

That Audit Committee note:

- **the changes to the Council's accounting policies as a result of the changes to the accounting framework**
- **the project management arrangements put in place to achieve timely closedown and to produce 2011/12 Financial Statements that are compliant with the Accounting Code**
- **the requirement for the Audit Committee to formally approve the audited 2011/12 Financial Statements at its September meeting and that it receives for information the unaudited Financial Statements and Annual Governance Statement at its July meeting**

7. Proposals and Details

In 2010/11, the Council successfully implemented major changes in accounting and presentation in its accounts as a result of the adoption of International Financial Reporting Standards (IFRS) in local authority accounting. This drew praise from KPMG.

The local authority accounting framework continues to evolve and it is therefore important that the Council is able to further embed IFRS compliant practices and respond to ongoing changes.

7.1 Changes to the accounting framework in 2011/12

The volume of changes in 2011/12 is thankfully much reduced compared to last year. The key changes are tabulated in Appendix 1.

Planning for these changes has already commenced and their delivery will be monitored as closedown progresses through the project management processes described below.

7.2 Changes to the Council's accounting policies resulting from the 2011/12 Accounting Code

Heritage Assets

The only potential change to the Council's accounting policies necessitated by the changes to the accounting framework relates to heritage assets.

Officers are at present in discussion with KPMG over whether the Council needs to adopt a policy for heritage assets. Whilst Culture and Leisure have embarked on compiling an inventory, there is currently no reliable information on the historical cost or valuation of heritage assets and the Council is reluctant, at a time of severe budget pressures, to engage the services of a professional valuer to obtain the required information. It is, therefore, unclear at this stage how material heritage assets might be and, hence, whether or not there is a need for the Council to adopt a policy.

Should it prove necessary to adopt a policy this will be brought back to Audit Committee's attention together with its financial effect as part of preparing the unaudited accounts.

Minimum Revenue Provision (MRP)

The policy for charging revenue with a prudent provision for the repayment of debt remains unchanged as being over the estimated useful life of the asset for which the borrowing was undertaken. Members will recall that officers presented for approval at the February meeting of the Committee, an amendment to the existing arrangements which would permit either of the two accepted methods specified in the statutory guidance on MRP for achieving this end, to be used: the equal instalment method or the annuity method.

7.3 Project management arrangements and reporting timetable

The project management arrangements which resulted in the successful implementation of IFRS in 2010/11 will again be employed in closing down 2011/12.

This will entail setting up an accounts closure project group to monitor delivery against an accounts closure project plan and to ensure that specific risks arising from accounting and presentational changes or complex material transactions entered into by the Council during the year are addressed early on in closedown, including, agreement on accounting treatment with KPMG where appropriate.

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

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

Members also resolved that they wished the process for preparing and approving the Annual Governance Statement to remain synchronised with that for financial reporting.

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

- 30 June 2012 – this is the date by which the unaudited Financial Statements must be authorised for publication by the Strategic Director of Resources.
- July 2012 Audit Committee – unaudited 2011/12 Financial Statements and Annual Governance Statement to be presented to Audit Committee for information.
- September 2012 Audit Committee – audited Financial Statements to be formally approved by Audit Committee following presentation to Committee of KPMG's ISA 260 report which sets out the findings of their audit of the Financial Statements and review of the Annual Governance Statement.

8. Finance

No additional financial implications beyond current budgetary provision is anticipated.

9. Risks and Uncertainties

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

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

The demands on Financial Services to achieve other key objectives at the same time that the accounts are being closed down means that there is a pressure on resources. Accounts closure will need to be given sufficient priority and adequately resourced if previous high standards are to be maintained.

It is also important to recognise that accounts closure is corporate in nature and not just a Finance function. Input is required from staff across the Council and it is crucial those directly involved understand their role and the importance of delivering to the agreed timetable. Finance Managers have already disseminated information to key non finance staff and explained the requirements.

10. Policy and Performance Agenda Implications

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

11. Background Papers and Consultation

*Code of Practice on Local Authority Accounting 2011/12
Accounts and Audit Regulations 2011
Audit Committee – February 2011& 2012*

Contact Name: *Simon Tompkins, Finance Manager, ext. 54513
Simon.tompkins@rotherham.gov.uk*

Key changes to the accounting framework in 2011/12

Area of accounts	Change in accounting practice / new disclosure required	Action taken
Heritage assets	<p>In 2011/12, heritage assets will be required to be recognised on the balance sheet as a separate asset category for the first time. Heritage assets are assets which have historical, artistic, scientific, technological, geophysical or environmental qualities that are held and maintained principally for their contribution to knowledge and culture.</p> <p>Heritage assets should be carried at valuation but may be carried at historical cost where it is not practicable to establish a valuation and historical cost information is available.</p> <p>Where there is no information available on either cost or value, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, there is no requirement to recognise heritage assets on the Balance Sheet. There should, however, be appropriate disclosure of the types of heritage asset held.</p>	Approach to accounting for heritage assets being considered with KPMG
Staff exit packages	<p>The 2011/12 Code introduces a requirement to report summary information in relation to exit packages.</p> <p>A new note is to be provided on the number of staff exit packages agreed (grouped in rising bands of £20,000 up to £100,000, and bands of £50,000 thereafter), analysed between compulsory redundancies and other departures. The note shall also disclose the total cost of packages agreed in each band. Bands shall be combined where this is necessary to ensure that individual exit packages cannot be identified (except where disclosure of payments to the individuals is required elsewhere under regulations).</p>	Arrangements in place to collect data to enable information on staff exit packages to be disclosed in 2011/12 and prior year comparatives
Related party transactions	Related party transactions are ones which are not arm's length due to one party to a transaction being able to control or exert significant influence over the other.	Plans in place for related party transactions note to be reviewed against

	Further clarity has been provided in 2011/12 on the definition of a related party and disclosure requirements in local authority accounts	latest guidance
Disposal of non current assets and discontinued operations	<p>The Statement of Accounts should enable users of the financial statements to evaluate the financial effects of any discontinued operations or disposals of non current assets.</p> <p>A discontinued operation is a major activity which has ceased completely during the financial year or which the Council is committed to dispose of within 2012/13.</p> <p>Additional information is required in 2011/12 to enable users of the financial statements to fully evaluate the financial effects of any such transactions.</p>	There are plans in place to ensure that disposals of non current assets which have a material effect on the accounts are adequately disclosed.
Financial instruments – soft loans	<p>Soft loans are loans advanced by the Council to third parties at interest rates below the prevailing market rate.</p> <p>Additional disclosures are required where the level of soft loans granted by an authority is material.</p>	The Council does not have any soft loans.
Comprehensive Income & Expenditure Account	<p>The Culture, Environment, Regulatory and Planning Services expenditure head in the Comprehensive Income and Expenditure Account is being split into three separate expenditure heads in 2011/12:</p> <ul style="list-style-type: none"> • Cultural and Related Services • Environment and Regulatory Services, and • Planning Services. 	Work being carried out to split Cultural, Environment & Planning service head into its three constituent parts and to restate prior year comparatives

**ROTHERHAM METROPOLITAN BOROUGH COUNCIL
REPORT TO AUDIT COMMITTEE MEMBERS**

1. Meeting:	Audit Committee
2. Date:	14th March 2012
3. Title:	External Audit Plan 2011/12
4. Directorate:	Resources

5. Summary

The Council's external auditor, KPMG LLP, has set out in its External Audit Plan for 2011/12 (Appendix 1) the proposed external audit work relating to council services and functions to be undertaken.

6. Recommendations

Audit Committee approves KPMG's External Audit Plan 2011/12, noting the proposed areas for audit identified.

7. Proposals and Details

The KPMG External Audit Plan sets out the proposed audit work to be undertaken in relation to the 2011/12 financial year. The Plan has been drawn up using a risk-based approach to audit planning and reflects the work that will be required to enable KPMG to review and report on the Council's:

- **Financial Statements (including the Annual Governance Statement):** providing an opinion on our 2011/12 Accounts; and
- **Use of Resources:** concluding on the arrangements in place for securing economy, efficiency and effectiveness in the use of resources (the Value for Money Conclusion).

Section 2 (Page 3 of KPMG's Plan) sets out the specific risks that KPMG will focus on during the audit which will contribute to formulation of their opinion on our Accounts and VFM Conclusion. The 4 areas to be reviewed are:

- The Council's ability to deliver its financial saving proposals and sustain its sound financial performance and position;
- How the Council has responded to the ongoing Accounting Code changes when preparing and reporting its Financial Statements;
- The operational and financial implications of bringing to an early completion the successful RBT strategic partnering agreement; and
- The future arrangements for Digital Region Limited.

Further details on these proposed review areas are set out in Section 4 (Pages 9-10 of KPMG's Plan) and Section 5 (Page 15) respectively.

Section 3 (Page 4 of KPMG's Plan) summarises the key stages and timetable for completing the work on the Council's financial statements (including Whole of Government Accounts) and concluding their reporting arrangements.

Section 5 (Pages 11-14 of KPMG's Plan) summarises their proposed approach to concluding whether the Council's arrangements for the use of its finite resources are securing VFM.

Section 6 (Pages 16-19 of KPMG's Plan) sets out the key audit contacts for the local team, the audit deliverables and their timelines to be reported to Audit Committee and the proposed audit fee for the work set out in the Plan.

8. Finance

The 2011/12 indicative fee for the audit work is £285,660 (2010/11 £323,681). This is in line with the Council's financial planning projections.

9. Risks and Uncertainties

The Audit Plan and proposed fee is based a number of assumptions set out on Page 19 of the Plan. Changes to the Plan and the fee may be necessary if new significant audit risks emerge.

Continuing to meet the audit plan expectations and attaining a very positive Annual Audit Report for 2011/12 is essential if the Council is to sustain its excellent reputation for good Financial Management, Governance and Reporting that KPMG have highlighted over previous years. This is particularly significant and important in the current difficult economic and financial conditions facing local councils.

10. Policy and Performance Agenda Implications

None

11. Background Papers and Consultation

Audit Commission – Work Programme and fee scales 2011/12
KPMG – External Audit Plan 2011/12

Contact Name:

Stuart Booth, Director of Financial Services, Resources Directorate **Ext:** 2034;
E: stuart.booth@rotherham.gov.uk



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External Audit Plan 2011/12

Rotherham Metropolitan Borough Council

01 March 2012



The contacts at KPMG in connection with this report are:

Stephen Clark

Director

KPMG LLP (UK)

0113 231 3148

stephen.clark@kpmg.co.uk

Rashpal Khangura

Senior Manager

KPMG LLP (UK)

0113 231 3396

rashpal.khangura@kpmg.co.uk

Amy Warner

Assistant Manager

KPMG LLP (UK)

0113 231 3089

amy.warner@kpmg.co.uk

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

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

If you have any concerns or are dissatisfied with any part of KPMG’s work, in the first instance you should contact 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.

This document describes how we will deliver our audit work for Rotherham MBC.

Statutory responsibilities

Our statutory responsibilities and powers are set out in the *Audit Commission Act 1998*, the *Local Government Act 1999* and the Audit Commission's *Code of Audit Practice*.

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

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

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

Scope of this report

This document describes how we will deliver our financial statements audit work for Rotherham MBC. It supplements our *Audit Fee Letter 2011/12* presented to you in April 2011.

We also set out our approach to value for money (VFM) work for 2011/12.

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

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

Structure of this report

This report is structured as follows:

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

Acknowledgements

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

We have identified a number of key risks that we will focus on during the audit of the 2011/12 financial statements and forming a conclusion on VFM

These are described in more detail on pages 9 (financial statements) and 15 (VFM).

The remainder of this document provides information on our:

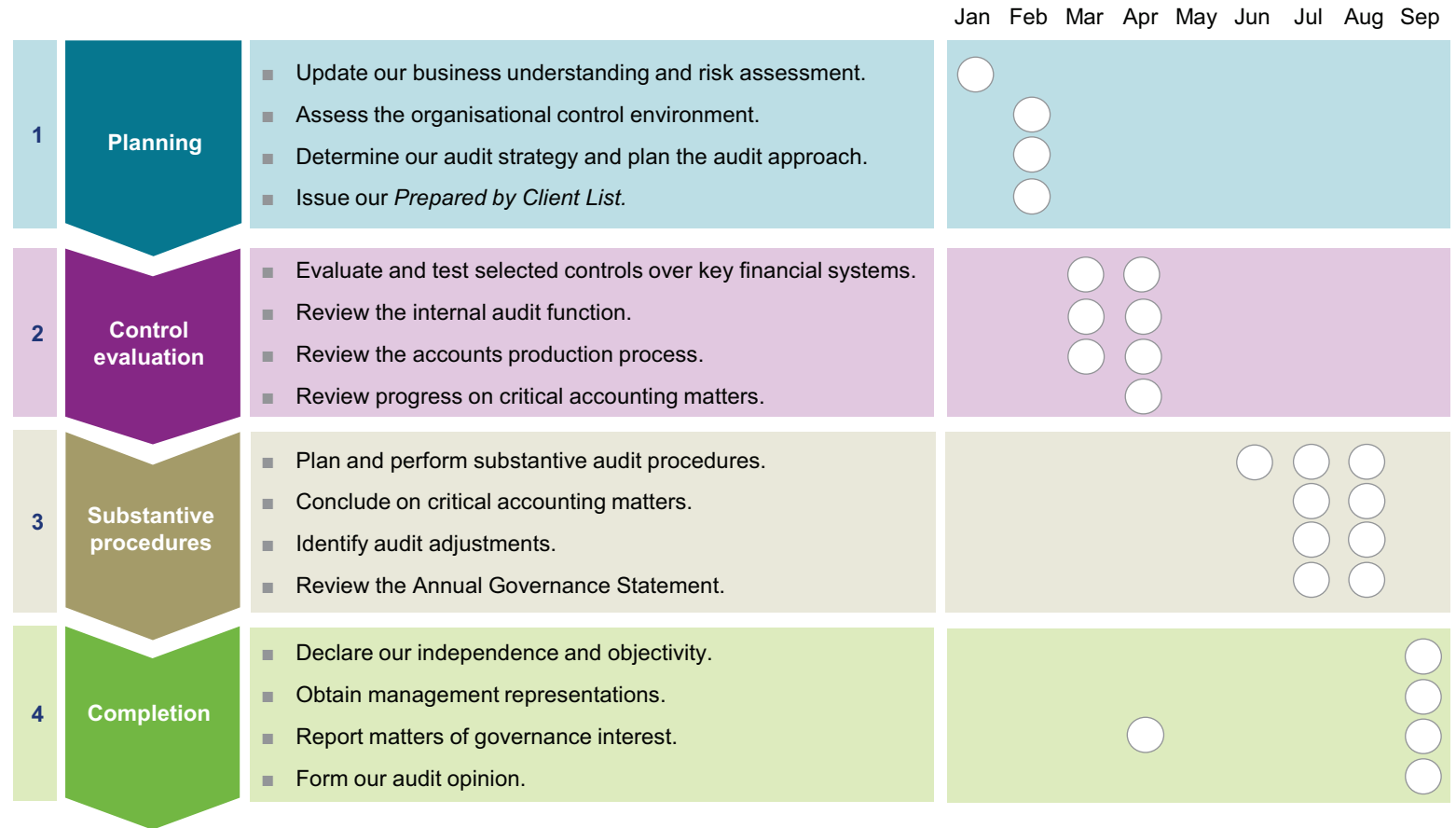
- Approach to the audit of the financial statements;
- Approach to VFM work; and
- Audit team, proposed deliverables, timescales and fees for our work.

Area	Risk	Audit work
Savings plans	Like all local authorities, the Council has significant cost savings targets to achieve if it is to continue to operate on a sound financial platform in the face of funding reductions. The Authority currently estimates that it will need to deliver £20m in savings during 2012/13 to address further reductions to local authority funding and continued cost pressures.	In conjunction with our VFM work we will critically assess the controls the Authority has in place to ensure sound financial standing and review how the Authority is planning and managing its savings plans.
RBT	The Authority is seeking to end its partnership with BT and delivery of transactional services in RBT. There are significant initial costs and potential future savings and opportunities from such a change. Given the scale of costs and potential savings there is an impact on value for money.	We will review the Authority's value for money analysis and considerations of the proposed changes. If we identify any residual risks we will review those prior to issuing our VFM conclusion.
Code changes	The Authority will need to review and appropriately address the changes introduced by the <i>Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code')</i> . These include a new requirement for "heritage assets".	We will discuss and review the Authority's proposed accounting treatments in the affected areas.
Digital Region Ltd	The Authority's Joint Venture company, Digital Region Limited, has significant liabilities that the Authority (and other members of the joint venture arrangement) would need to fund if Digital Region Ltd ceased trading.	We will review the Authority's value for money arrangements in managing the potential issues concerning Digital Region Ltd.

We undertake our work on your financial statements in four key stages during 2012:

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

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



During January we complete our planning work.

We assess the key risks affecting the Authority's financial statements based on our historical and sector knowledge.

We assess if there are any weaknesses in respect of central processes, including the Authority's IT systems, that would impact on our audit.

We determine our audit strategy and approach and specify what evidence we expect from the Authority to support the financial statements.

Our planning work takes place in January 2012. This involves the following aspects:

Planning

- Update our business understanding and risk assessment.
- Assess the organisational control environment.
- Determine our audit strategy and plan the audit approach.
- Issue our *Prepared by Client list*.

Business understanding and risk assessment

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

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

We communicate with the central finance team on a bi-monthly basis to consider issues and how they are addressed during the financial year end closedown and accounts preparation.

Organisational control environment

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would impact on our audit. Most of the organisational controls we assess were previously linked to the use of resources assessment. In particular, the areas risk management, internal control and ethics and conduct have implications for our financial statements audit.

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

Audit strategy and approach

The Engagement Partner sets the overall direction of the audit and decides the nature and extent of audit activities.

We design audit procedures in response to the risk that the financial statements are materially misstated. The materiality level is a matter of judgement and is set by the Engagement Partner.

Prepared by client list

At the end of our planning work we will issue the Prepared by Client List. This important document sets out our working papers and other evidence we require the Authority to provide during our interim and final accounts visits.

We met with the Director of Financial Services and central finance team to discuss mutual learning points from the 2010/11 audit. These will be incorporated into our work plan for 2011/12. We revisit progress against areas identified for development in our quarterly meetings with the Strategic Director of Resources and Director of Financial Services.

During April we complete our interim work.

We assess if controls over key financial systems were effective during 2011/12. We work with your internal audit team to avoid duplication.

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

We will present our *Interim Report* to the Audit Committee in April.

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

Control Evaluation

- Evaluate and test controls over key financial systems.
- Review the internal audit function.
- Review the accounts production process.
- Review progress on critical accounting matters.

Controls over key financial systems

We update our understanding of the Authority's key financial processes where these are relevant to our final accounts audit. We confirm our understanding by completing walkthroughs for these systems. We then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Appendix 1 illustrates how we determine the most effective balance of internal controls and substantive audit testing.

We work with the Authority's internal auditors to assess the control framework for key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place reliance on their work. We met with Internal Audit management in January 2012 to discuss the principles and timetables for the audit process for 2011/12.

Review of internal audit

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to review aspects of their work. This includes re-performing a sample of tests completed by internal audit. We will provide detailed feedback to the Director of Risk and Assurance at the end of our interim visit.

Accounts production process

We praised the Authority finance teams in our *Report to Those Charged with Governance (ISA 260 Report) 2010/11* for their strong performance in the accounts production process. Due to the financial services restructure there are a number of risks that need to be addressed to ensure that strong performance is maintained:

- The number of finance FTEs has dropped meaning that workloads will be more demanding. In addition the loss of experience and knowledge that underpin the production of accounts needs to be adequately managed.
- The move to the new offices mean that an effective close down timetable is more important than ever.

We will assess the Authority's progress in managing these risks and in preparing for the closedown and accounts preparation.

Critical accounting matters

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

Following our interim visit we will issue our *Interim Report* which will set out the findings of our planning and interim work. This will be discussed at the Audit Committee meeting in April.

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

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

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

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

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

Substantive Procedures

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

Substantive audit procedures

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

Critical accounting matters

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

Audit adjustments

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

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

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

Annual Governance Statement

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

We report the findings of our final accounts work in our *ISA 260 Report*.

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

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

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

Our independence and objectivity responsibilities under the Code are summarised in Appendix 2.

We confirm our audit team's independence and objectivity is not impaired.

Whole of government accounts (WGA)

We are required to review and issue an opinion on your WGA consolidation to confirm that this is consistent with your financial statements. The audit approach has been agreed with HM Treasury and the National Audit Office.

Elector challenge

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

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

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

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

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the central finance team and the Audit Committee. Our deliverables are included on page 17

Independence and objectivity confirmation

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

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


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

Confirmation statement

We confirm that as of February 2012 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Appointed Auditor and audit team is not impaired.

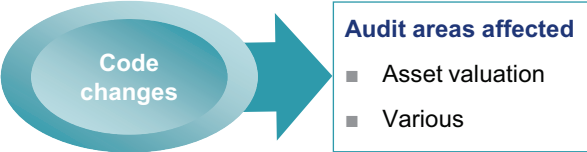
For each key area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key areas	Impact on audit
	<p>As at November 2011, the Authority is forecasting that it will overspend on its Budget by £7.393m (3.4%).</p> <p>The main reasons for the projected overspend are the continued demand on services and cost pressures in looking after vulnerable children across the Borough; one off property costs relating to the continued rationalisation of the Council's asset portfolio to drive future efficiencies; and the extended timetable for realising the full forecast management and business support savings.</p> <p>The Authority currently estimates that another £20m in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Children and Young People's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p> <p>Our audit work</p> <p>We will review the year end outturn and projected forecast for 2012/13 and the impact on reserves. We will also consider the medium term financial plan and ensure it is robust to deliver a sound financial standing.</p> <p>If we do identify any residual audit risk then we will assess the Authority's processes for monitoring and managing its delivery of its savings programme.</p>

For each key area we have outlined the impact on our audit plan.

We will provide an update on how the Authority is managing these risks in our *Interim Audit Report*.

Key audit risks	Impact on audit
	<p>Risk</p> <p>The 2011/12 <i>Code</i> includes a number of accounting changes, including a new requirement to carry ‘heritage assets’ at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 <i>Code</i> also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 <i>Code</i>.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p> <p>Our audit work</p> <p>As part of our interim work we will review the Authority’s approach to addressing the <i>Code</i> changes.</p> <p>As part of our final accounts audit we will review the appropriateness of the accounting entries and disclosures in the accounts.</p>

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

Background to approach to VFM work

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

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

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

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

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

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

Overview of the VFM audit approach

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



Each of these stages are summarised further below.

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

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

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

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

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

We will report on the results of the VFM audit through our *Interim Audit Report* and our *Report to those charged with governance*.

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

Section Two Summary of VFM audit approach

We have outlined those areas we assess as being high risk in terms of their impact on our Value for Money conclusion.

Findings of our VFM Audit risk assessment

We have summarised below those risks that, at this stage, we believe will require specific detailed consideration as part of the VFM audit. In identifying these risks we are ensuring that our audit work will focus on those which are judged to have a high impact. We have outlined why we believe each of these are relevant to our VFM responsibilities for 2011/12 and what work we will undertake to address the risk.

As explained on the previous page, the approach includes a more detailed risk assessment and therefore it is possible that we will identify additional risks that we will also need to consider in further detail as the audit progresses.

Higher audit risks	Description	Further work required to inform our VFM conclusion
	<p>The Authority is seeking to end its partnership with BT and delivery of transactional services in RBT. There are significant initial costs and potential future savings and opportunities from such a change. Given the scale of costs and potential savings there is an impact on value for money.</p>	<p>We will review the Authority's value for money analysis and considerations of the proposed changes. If we identify any residual risks we will review those prior to issuing our VFM conclusion.</p>
	<p>The Authority's Joint Venture company, Digital Region Limited, has significant liabilities that the Authority (and other members of the joint venture arrangement) would need to fund if Digital Region Ltd ceased trading.</p>	<p>We will review the Authority's value for money arrangements in managing the potential issues concerning Digital Region Ltd.</p>

Our audit team were all part of the Rotherham MBC audit last year with exception of Rashpal Khangura who replaces Alison Ormston. Contact details are shown on page 1.

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



Steve Clark
Director

“My role is to lead our team and ensure the delivery of a high quality external audit opinion. I will be the main point of contact for the Audit Committee, the Chief Executive, and the Strategic Director of Resources.”



Rashpal Khangura
Senior Manager

“I will direct and coordinate the audit and provide strategic direction to the audit team. I will work closely with Steve Clark to ensure we add value. I will be the main contact for the Director of Financial Services.”



Amy Warner
Assistant Manager

“I am responsible for the management, review and delivery of the whole audit and providing quality assurance for any technical accounting areas. I will liaise with the Chief Accountant and Internal Audit manager.”



Section six Audit deliverables

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

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

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

Deliverable	Purpose	Committee dates
Planning		
External Audit Plan	<ul style="list-style-type: none"> Outline audit approach. Identify areas of audit focus and planned procedures. 	March 2012
Control evaluation		
Interim Report	<ul style="list-style-type: none"> Details and resolution of control and process issues. Identify improvements required prior to the issue of the draft financial statements and the year-end audit. 	April 2012
Substantive procedures		
Report to Those Charged with Governance (ISA 260 Report)	<ul style="list-style-type: none"> Details the resolution of key audit issues. Communication of adjusted and unadjusted audit differences. Performance improvement recommendations identified during our audit. Commentary on the Authority's value for money arrangements. 	September 2012
Completion		
Auditor's report	<ul style="list-style-type: none"> Providing an opinion on your accounts (including the Annual Governance Statement). Concluding on the arrangements in place for securing economy, efficiency and effectiveness in your use of resources (the VFM conclusion). 	September 2012
Annual Audit Letter	<ul style="list-style-type: none"> Summarises the outcomes and the key issues arising from our audit work for the year. 	December 2012

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

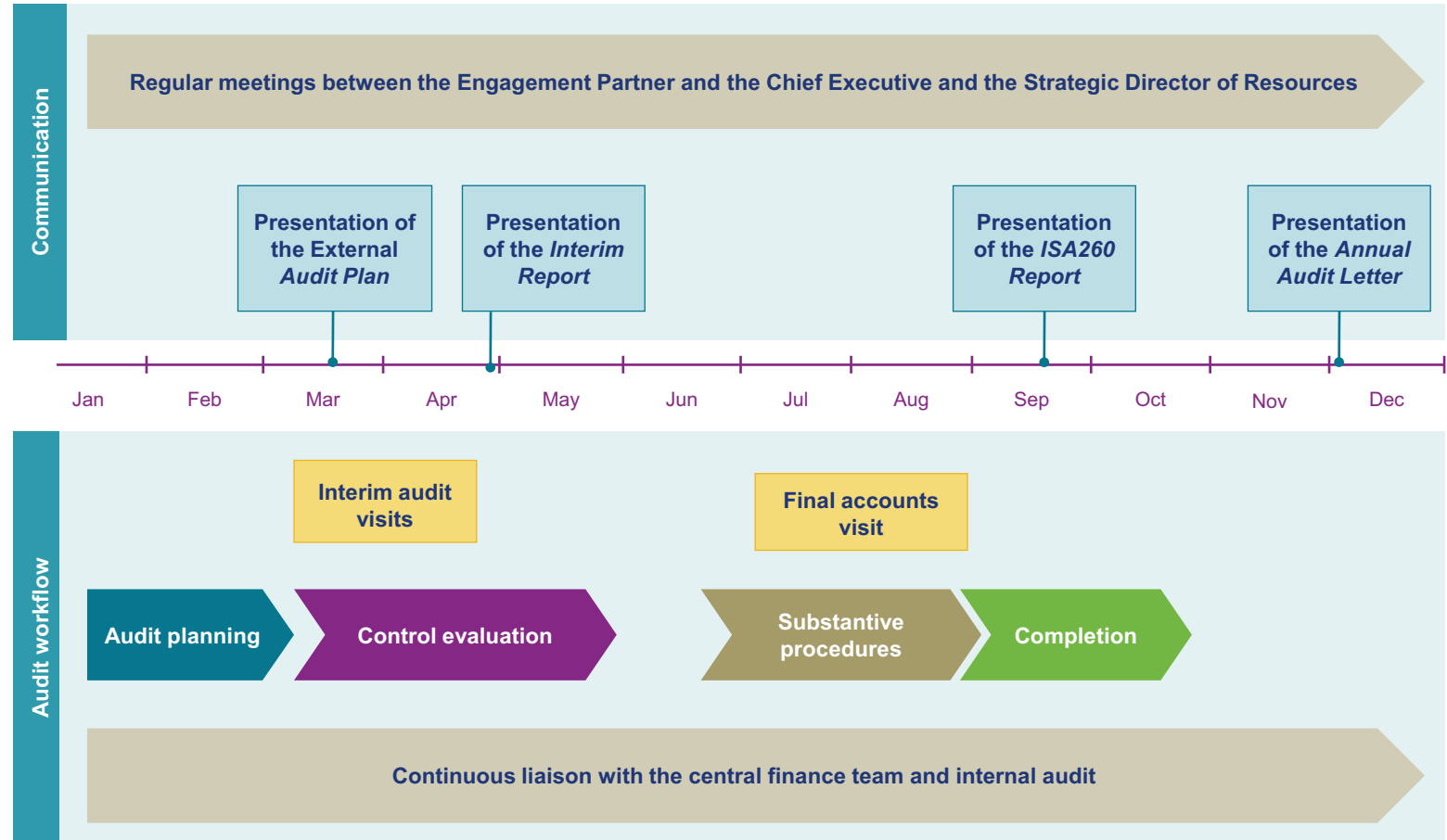
Key formal interactions with the Audit Committee are:

- March – External Audit Plan;
- April – Interim Report;
- September – ISA 260 Report;
- December – Annual Audit Letter.

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

Our main work on site will be our:

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



The main fee for 2011/12 audit of the Authority is £310,500. The fee has not changed from that set out in our *Audit Fee Letter 2011/12* issued in April 2011.

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

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

The fee for our grants work will be confirmed through our *certification of grants and returns fee letter* which will be issued in May 2012.

Audit fee

Our *Audit Fee Letter 2011/12* presented to you in April 2011 first set out our fees for the 2011/12 audit. We have not considered it necessary to make any changes to the agreed fees.

Element of the audit	2011/12 (planned)	2010/11 (actual)
Gross audit fee	£310,500	£345,000
Less: Audit Commission rebate	(£24,840)	(£21,319)
Total	£285,660	£323,681

The main fee for 2011/12 audit is £310,500, which includes our work on the VFM conclusion and our audit of the Authority's financial statements. The Audit Commission continues to issue rebates to local authorities and the rebate for 2011/12 is £24,840 (8%).

Audit fee assumptions

The audit fee is indicative and based on you meeting our expectations. In setting the fee, we have assumed:

- the level of risk in relation to the audit of the financial statements is not significantly different from that identified for 2010/11;
- you will inform us of any significant developments impacting on our audit;
- you will identify and implement any changes required under the *CIPFA Code of Practice on Local Authority Accounting in the UK 2011/12* within your 2011/12 financial statements;
- you will comply with the expectations set out in our *Prepared by Client list*, including:
 - the financial statements are made available for audit in line with the agreed timescales;
 - good quality working papers and records will be provided at the start of the final accounts audit;

- requested information will be provided within the agreed timescales;
- prompt responses will be provided to queries and draft reports;
- internal audit meets appropriate professional standards;
- internal audit completes appropriate work on all systems that provide material figures for the financial statements and we can place reliance on them for our audit; and
- additional work will not be required to address questions or objections raised by local government electors.

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

The Audit Commission requires us to inform you of specific actions you could take to keep the audit fee low. The Authority have a strong track record of efficient and well-controlled financial closedown and accounts production process which has maintained a low audit fee. However the challenge in the future will be managing the loss of key staff in the financial services restructure.

Whilst the central finance team has been retained in post, the source information and knowledge required from directorate finance teams to compile the accounts may be more difficult to ensure.

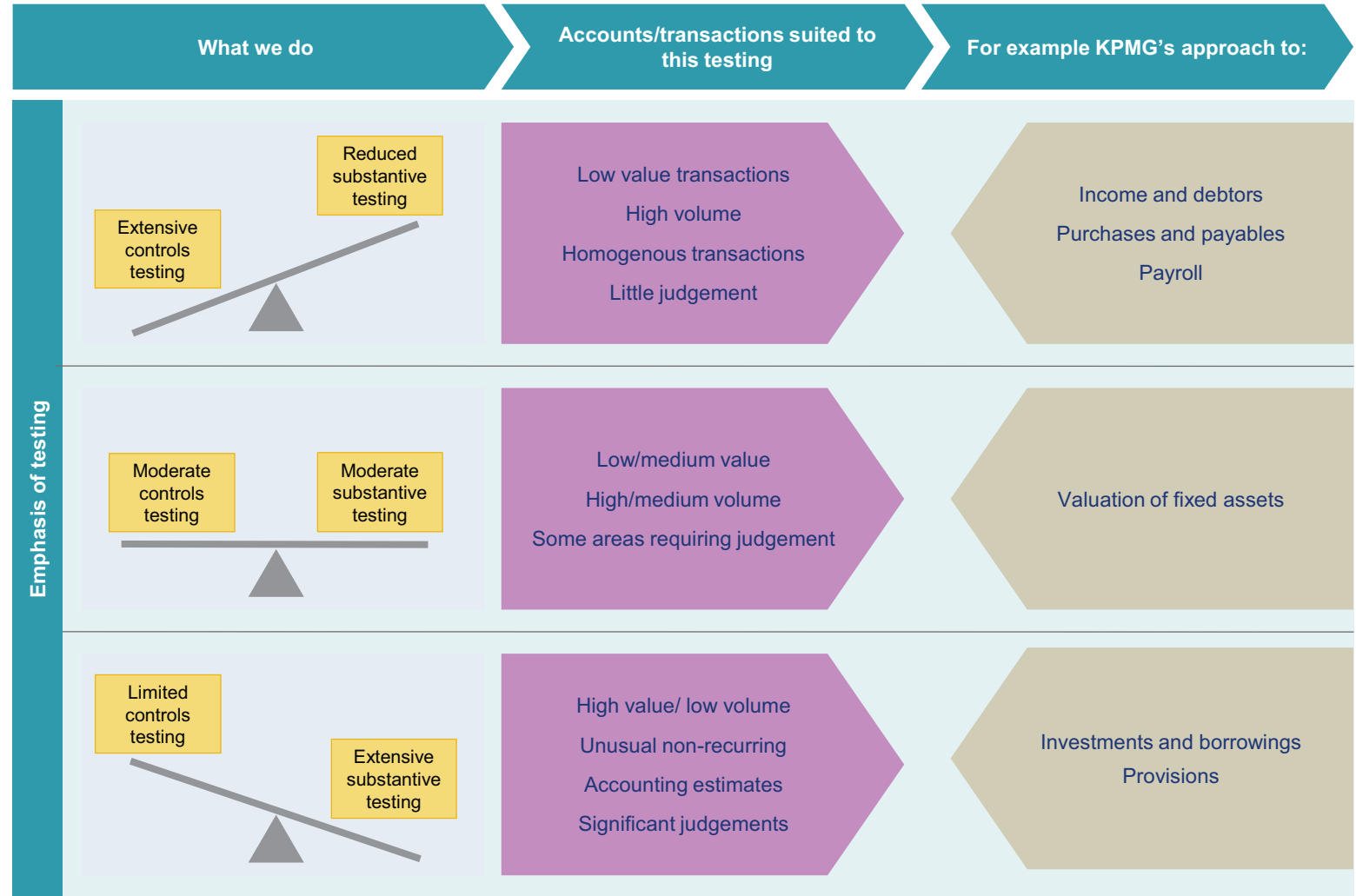
Changes to the audit plan

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

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

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

This appendix illustrates how we determine the most effective balance of internal controls and substantive audit testing.



This appendix summarises auditors' responsibilities regarding independence and objectivity.

Independence and objectivity

Auditors are required by the Code to:

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

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

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

- Any staff involved on Commission work who wish to engage in political activity should obtain prior approval from the Partner.
- Audit staff are expected not to accept appointments as lay school inspectors.
- Firms are expected not to risk damaging working relationships by bidding for work within an audited body's area in direct competition with the body's own staff without having discussed and agreed a local protocol with the body concerned.

- Auditors are expected to comply with the Commission's statements on firms not providing personal financial or tax advice to certain senior individuals at their audited bodies, auditors' conflicts of interest in relation to PFI procurement at audited bodies, and disposal of consultancy practices and auditors' independence.
- Auditors appointed by the Commission should not accept engagements which involve commenting on the performance of other Commission auditors on Commission work without first consulting the Commission.
- Auditors are expected to comply with the Commission's policy for the Engagement Lead to be changed on each audit at least once every five years (subject to agreed transitional arrangements). Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- Audit suppliers are required to obtain the Commission's written approval prior to changing any Engagement Lead in respect of each audited body.
- The Commission must be notified of any change of second in command within one month of making the change. Where a new Engagement Lead or second in command has not previously undertaken audits under the Audit Commission Act 1998 or has not previously worked for the audit supplier, the audit supplier is required to provide brief details of the individual's relevant qualifications, skills and experience.

Appendix 3: Quality assurance and technical capacity

We continually focus on delivering a high quality audit.

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

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

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

We recruit the best staff through our rigorous selection and assessment criteria. In addition, we expect that future talent to develop with our application of most effective in-house and external training support.

Our audit methodology determines that we use a standardised audit approach and pro forma work papers. We also have standards of audit evidence and working papers including requirements for working paper retention.

At critical periods of the audit we conduct both manager and engagement leader review of the work completed. Upon final completion, managers and directors complete a checklist to indicate the satisfactory conclusion of the audit under the audit methodology.

Partners who meet certain skills and experience criteria, conduct quality control reviews of individual audits depending on the level of audit risk. Their role is to perform an objective evaluation of the significant accounting, auditing and financial reporting matters with a high degree of detachment from the audit team. This provides an objective internal assessment on the quality of our audit. Peer review is undertaken across the firm, with an annual sample of our work being undertaken from a different national office. This encourages a constant focus on quality and ensures there is continuous improvement and that best practice is shared.

Our quality review results

We are able to evidence the quality of our audits through the results of National Audit Office and Audit Commission reviews. The results of the Audit Commission's annual quality review process is made publicly available each year (www.audit-commission.gov.uk/reports). The latest report dated October 2011 showed that we performed highly against all the Commission's criteria.



Resolving accounting and financial reporting issues

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

- A national public sector technical director (based in our London office) who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.
- A national technical network of public sector audit professionals that meets on a monthly basis and is chaired by our national technical director.

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

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

When dealing with the Audit Commission, as you would expect, we both attend and cascade across the firm the papers considered by their various technical groups for auditors. In addition, as the Audit Commission has developed we have established a series of formal and informal relationships. These benefit both the Audit Commission and our local authority clients. As a result of all of these factors, and combined with our overall audit approach, we seek to offer early warnings of issues arising with the independent regulator and provide pragmatic solutions.



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**ROTHERHAM METROPOLITAN BOROUGH COUNCIL
REPORT TO AUDIT COMMITTEE**

Meeting:	Audit Committee
Date:	14 th March 2012
Title:	Review of Progress Against the Internal Audit Plan for Ten Months ending 31 st January 2012
Directorate:	Resources

5. Summary.

This report contains a summary of Internal Audit's work and performance for the ten months ending 31st January 2012. The service has achieved good performance in the period, exceeding most of its stretch targets.

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

6. Recommendations.

The Audit Committee is asked to:

- **note the good performance of 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 ten 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 summarises:

- performance against key service benchmarks
- planned audit reports issued during the period, highlighting the overall opinion for each audit
- the number of high priority recommendations made
- the proportion of recommendations agreed / not agreed
- a summary of responsive work undertaken
- an analysis of use of audit resources
- a summary of key service developments during the period.

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 2011 to January 2012
Draft reports issued within 15 days of field work being completed.	90%	90%	91%	92%
Percentage of 3 star (fundamental control weakness) recommendations agreed.	100%	100%	100%	100%
Chargeable Time/Gross Time.	62%	62%	63%	61%
Audits completed within planned time.	82%	93%	93%	89%
Percentage of Audit Plan completed.	86%	84%	86%	83%*
Cost per Chargeable Day.	£307	£291	£270	£264
Client Satisfaction Survey.	90%	89%	90%	92%

* extrapolated from performance to date

7.2.2 Client satisfaction has been excellent in the period, with 92% of client survey returns showing overall positive feedback. An important measure of our effectiveness as a service is being able to provide timely feedback to our auditees so that they can address any areas of concern quickly. It is pleasing therefore that we have been able to exceed our targets for issuing draft reports within 15 days of the completion of fieldwork.

7.2.3 Our performance on the completion of audits within planned time is slightly below target. This has been due to auditors identifying issues requiring further investigation whilst undertaking planned audit activity. We have also had the occasional delay due mainly to the need to obtain further information / clarification on specific issues following completion of the field work.

7.2.4 Our performance on the percentage of completion of the Audit Plan is slightly below target. However, there are a number of assignments approaching completion, particularly the fundamental financial systems 'managed' audits. As these will be issued before the end of the financial year, it is expected that our target of 86% will be met.

7.2.5 The achievement of these standards represents very good performance when taking into account a reduced level of resources this year and a loss of some productive time as a result of the move to Riverside House.

7.3 Planned Audit Reports and Recommendations.

Appendix A shows the audit reports issued and agreed during the first ten months of the year. Audit findings in all areas indicated that satisfactory control arrangements were in place and testing confirmed that these controls were operating effectively during the period under review. However, our work shows that there are opportunities to strengthen arrangements in some areas. Implementation of Internal Audit's recommendations for improvement will reduce the Council's exposure to risk.

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 303 auditor days has been spent on responsive work to date representing approximately 10.5% of available resources. Examples of the more significant areas examined in the period include:

a) CYPS: Primary School Childcare Club.

This was reported to the Audit Committee on 7th December 2011.

b) EDS: Car Park Income.

As previously reported to the Audit Committee on 7th December, Internal Audit investigated the loss of car parking income. Following our report the officer responsible subsequently resigned his post. A further report on system weaknesses was produced by Internal Audit and all recommendations made within the report have been accepted and implemented by EDS management.

c) CYPS: Children's Home.

This was reported to the Audit Committee on 7th December 2011.

d) NAS: Declaration of Interest.

Assistance was provided to an investigation by Human Resources into an officer who had failed to make a declaration of interest whilst arranging for services to be provided through Direct Payments by a company in which he had an interest. The HR investigation is ongoing.

e) CYPS and NAS: Grant Funding to Third Sector Organisation

The Council provides grants to local third sector organisations to deliver learning opportunities to disadvantaged neighbourhoods. In one recent instance a former tutor of one of these organisations made allegations that the organisation had improperly claimed grant for expenditure it had not incurred and also 'double' claimed grant from the Council and another funder. Investigations are still ongoing and a report is being finalised which will make recommendations on how to improve internal controls. Where appropriate and in accordance with legal advice, the Council will pursue the organisation for recovery of grant.

7.5 Analysis of Use of Audit Resources.

The Audit Plan presented to the Audit Committee in June 2011 identified the time available for internal audit during the year, the expected number of chargeable audit days and expected usage of available time. An analysis of the actual use of audit resources compared to the profiled budget at the end of January 2012 has been undertaken. This has revealed that time spent on service development and the completion of 2010/11 financial year audits has been higher than originally expected, with time spent on professional training and management review being less than planned at this stage.

A table showing a detailed analysis of the actual use of audit resource compared to the Plan is shown at Appendix C to this report.

7.6 Summary of Key Service Developments During the Period.

Rotherham Internal Audit continues to work in partnership with Doncaster Internal Audit to further improve the efficiency and effectiveness of the service provided at both sites, to share best practice and to strengthen service resilience. Some of the main projects that have been undertaken include:-

Audit of Core Financial Systems – adoption of a more risk based approach to reduce time spent whilst continuing to meet KPMG requirements, International Auditing Standards and professional standards.

Anti Fraud and Corruption Work – updating of Anti Fraud and Corruption Strategies, to include the provisions of the Bribery Act 2010.

Review of Approach to Schools Audit – Whilst there has been improvement to the efficiency of our approach to schools audit in recent years, reduction in audit resources has accelerated the imperative to change our working practices. This has resulted in increased emphasis being placed on thematic reviews which aim to add value to our schools. Early indications appear to show very positive feedback from schools to this approach.

Reviews carried out by Internal Audit in this area include:

- Arrangements for letting capital contracts
- Building cleaning provision in schools
- Schools Catering Service
- Extended schools childcare provision
- Financial aspects of governance arrangements for schools, including Financial Regulations, Fair Funding Scheme

Council Budget Reductions – Work has continued on considering the implications for control arrangements of any changes resulting from the implementation of Council-wide savings (e.g. changes to structure and/or processes that could affect the internal control environment).

Work for other Local Authorities / External Bodies – One of our Principal Auditors is currently finalising a risk based strategic plan of ICT Audit for both Doncaster Council and St Leger Homes, the housing Arms Length Management Organisation in Doncaster. We have also provided advice to the Internal Audit section at Barnsley Council on ICT security issues, in accordance with an income generating Service Level Agreement. Barnsley has requested that we continue to provide this service for them during the 2012/13 financial year.

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 Asset Management, x22033

Marc Bicknell, Internal Audit Manager, x23297

Appendices:

Appendix A: Summary of Planned Audits Completed: April 2011– January 2012

Appendix B: Summary of Internal Audit Responsive Work: April 2011 – January 2012

Appendix C: Analysis of Use of Audit Resources: April 2011 – January 2012

Summary of Planned Audits Completed: April 2011 – January 2012

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
<u>Chief Executive's Directorate</u>						
Risk Management: Chief Executive's Directorate	2	1	1	0	0	Adequate
Honoraria Payments	2	2	0	0	0	Adequate
<u>Children and Young People's Services Directorate</u>						
Primary Schools						
Aston Lodge Primary School	22	22	0	0	0	Adequate
Brinsworth Whitehill Primary School	15	15	0	0	0	Adequate
Brampton Ellis Junior School	14	14	0	0	0	Adequate
Flanderwell Junior and Infant School	18	18	0	0	0	Adequate
High Greave Junior School	24	Awaiting Reply	Awaiting Reply	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 Ashwood Primary School	12	12	0	0	0	Adequate
Rawmarsh St Joseph's Catholic Primary School	22	22	0	0	0	Adequate
St. Bede's Catholic Primary School	26	26	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
Wentworth Junior and Infant School	16	Awaiting Reply	Awaiting Reply	0	0	Adequate
Wickersley St Alban's Primary School	22	22	0	0	0	Adequate
Secondary Schools						
Dinnington Comprehensive School	28	28	0	0	0	Adequate
Oakwood Technology College	10	10	0	0	0	Adequate
Rawmarsh Community School & Sports College	20	20	0	0	0	Adequate
Winterhill School	15	15	0	0	0	Adequate

Summary of Planned Audits Completed: April 2011 – January 2012

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Special Schools						
Kelford School	26	25	1	0	0	Adequate
Other CYPS						
Children's Centres	16	16	0	0	0	Adequate
Children's Residential Units	8	Awaiting Reply	0	0	0	Adequate
Children's Social Services Locality Teams	9	Awaiting Reply	Awaiting Reply	0	0	Adequate
City Learning Centres Provision	20	20	0	0	0	Adequate
Devolved Capital Spending in Schools *	8	Awaiting Reply	Awaiting Reply	0	0	Adequate
Looked After Children: Out of Borough Placements (follow up to 2010/11 audit)	2	2	0	0	0	Adequate
Review of Financial Regulations for Schools	1	1	0	0	0	Adequate
Review of School Bank Account Scheme	1	1	0	0	0	Adequate
Schools Catering Service	6	Awaiting Reply	Awaiting Reply	0	0	Adequate
Schools Cleaning Contracts	4	4	0	0	0	Adequate
Schools Extended Services: Childcare Income (follow up to investigation of irregularity at Woodsetts Primary School Kids Club)	8	8	0	0	0	Adequate
Neighbourhoods and Adult Services Directorate						
Risk Management: Neighbourhoods and Adult Services	1	1	0	0	0	Adequate
Housing Tenancy Fraud	9	9	0	0	0	Adequate
Licensing Service	6	6	0	0	0	Adequate
Environment and Development Services Directorate						
Risk Management: Environment and Development Services	11	11	0	0	0	Adequate
Carbon Reduction	14	14	0	0	0	Adequate

Summary of Planned Audits Completed: April 2011 – January 2012

Area Audited	Number of Recs Made	Number of Recs Agreed	Variance	Number Of 3 * Recs Made	Number of 3 * Recs Agreed	Opinion Adequate/ Inadequate
Commitment Energy Efficiency Scheme *						
Grounds Maintenance	3	3	0	0	0	Adequate
Waste Disposal Client	2	2	0	0	0	Adequate
<u>Financial Services Directorate</u>						
Risk Management: Financial Services	4	4	0	0	0	Adequate
Annual Governance Statement	10	10	0	0	0	Adequate
Payment of Parish Precepts	1	1	0	0	0	Adequate
<u>Grants</u>						
EU Going Local 2020 Grant	n/a	n/a	n/a	n/a	n/a	Adequate
EU Regional Improvement and Efficiency Programme 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
Housing Market Renewal Pathfinder Grant	n/a	n/a	n/a	n/a	n/a	Adequate
Managing Adaptive Responses to Changing Flood Risk in North Sea Region 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
<u>ICT Audit</u>						
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
File Controls - EDRMS	7	7	0	0	0	Adequate
General Ledger Upgrade: Bridgewater Site Visit	2	2	0	0	0	Adequate

* Forwarded to Overview and Scrutiny Management Board for consideration

Summary of Internal Audit Responsive Work: April 2011 – January 2012.

Description
<u>Chief Executive's / Resources / Corporate</u>
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).
Investigation into allegations of grant paid to a third sector organisation and use of the grant.
Advice provided to the Community Engagement Team regarding the adequacy of monitoring arrangements surrounding payments to community groups.
Advice provided to the Commissioning Team regarding the Council's right of access to the accounting records of a contractor.
Investigation of a complaint regarding grant funding made to a local third sector organisation. See 7.4 (e) of the audit report.
<u>Children and Young People Services</u>
Investigation into alleged irregularities in the administration of childcare income at a primary school.
Advice provided regarding investigation of alleged financial irregularities and the strengthening of procedures at a children's home.
Compilation of response to a Freedom of Information request regarding payments made to the Common Purpose organisation in respect of the '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 member of the public (see 7.4 above)
Advice to a comprehensive school regarding best practice in procurement processes.
Advice provided in respect of the use of direct debits by schools with bank accounts.
Advice provided on security arrangements following the theft of petty cash at a children's home.
Investigation into allegations that an employee at a Council children's centre was working elsewhere whilst off sick. No evidence was found to substantiate the allegations.

Summary of Internal Audit Responsive Work: April 2011 – January 2012.

Description
Advice provided to the Schools Catering Service regarding correct procedures for disposal of surplus equipment.
Advice provided to a comprehensive school regarding the procedures for accounting for VAT.
Advice provided regarding data security arrangements following the theft of laptops from Norfolk House.
Investigation into the expense claims of a former Head Teacher. He has subsequently paid back £126 to the school concerned.
Advice provided in respect of processes for accounting for sixth form funding in accordance with the requirements of the Young Persons Learning Agency.
<u>Environment and Development Services</u>
Investigation into loss of car park income (see 7.4 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 a building contract.
Advice provided to Asset Management regarding the use of a Smartcard Security System at the new Riverside House civic offices.
Advice given regarding request for grant payment to be made in foreign currency.
Advice provided to Green Spaces to strengthen procedures following the loss of a cash float at one of the Council's urban parks.
Advice provided to Culture and Leisure regarding the disposal of assets at the Civic Theatre.
Advice to EDS Sports Development regarding procedures for the receipting of cash payments.
Review of processes for calculation of cleaners' payroll following the identification of significant overpayments, which 2 cleaners had themselves made the Council aware of.

Summary of Internal Audit Responsive Work: April 2011 – January 2012.

Description
<u>Financial Services</u>
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.
Advice provided to Voluntary Action Rotherham regarding verification of funding to third sector organisations.
Analysis of payments made on mobile phone contracts, highlighting instances where line rentals were being paid, but call volumes were minimal or nil.
Advice provided to Accountancy Services on changes to procedures for processing journals.
Local Gov Transformation, improvement and efficiency grant 2009/10, 2010/11 & 2011/12. Complete audit of expenditure in accordance with grant conditions.
<u>Neighbourhoods and Adult Services</u>
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.
Advice regarding NAS adaptations and quotation process.
Investigation into irregularities in the system for arranging services for disabled people through the Direct Payments system.
<u>RBT</u>
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.
Advice provided with respect to a Freedom of Information Request and a benefit claimant complaint.
Advice about a proposal to carry out changes to checks currently made to verify single person discount claims.
Data matching exercise to highlight possible cases of housing tenancy fraud.
Advice regarding Housing Benefit post opening procedures.

Analysis of use of Audit Resources April 2011 – January 2012.Analysis of use of Audit Resources

	<u>Budget</u>	<u>Profiled</u> <u>Budget</u> <u>(Periods</u> <u>1-10)</u>	<u>Actual</u>	<u>Variance</u> <u>+ / -</u>
Gross Days Available	3468	2888	2881	-7
Less				
Leave (Annual / Statutory / Concessionary / Other)	545	454	542	+88
Elections	10	8	5	-3
Sickness	53	44	80	+36
Service Development	0	0	65	+65
Professional Training and CPD	134	112	69	-43
Management and Review	150	125	106	-19
Admin and Clerical	120	100	125	+25
Professional Meetings	46	39	50	+11
Strike Action	0	0	10	+10
	Less	1058	882	1052
				+170
Gross Audit Days Available	2410	2006	1829	-177
Less				
2010/11 Work Brought Forward / Follow Up Work	94	78	82	+4
Review of Audit Files and Reports	160	134	91	-43
	Less	254	212	173
				-39
Net Audit Days Available for 2011 / 2012	2156	1794	1656	-138
Responsive Audits	410	341	303	-38
Planned Audits	1746	1453	1353	-100

Analysis of use of Audit Resources April 2011 – January 2012.

There are a number of variances between budget and actual in relation to the number of audit days available. The most significant of which are:

- Leave is higher than the profiled budget at the end of period 10 because many staff use their leave entitlement during the summer months and very little leave is taken during February and March. In addition, a member of staff was granted 5 days of bereavement leave in accordance with the Council's HR policy.
- Sickness absence is slightly higher than expectation. This is mainly due to one member of staff who was off sick for several weeks in late December / early January following an accident away from work.
- Time spent on Service Development and Admin and Clerical is higher than expectation, largely due to the move to Riverside House as a member of staff has been involved in supporting other areas of Financial Services with the implementation of EDRMS and Worksmart initiatives.
- Time spent on professional training is below budget. This is because a decision was made early in the financial year to place increased emphasis on low-cost "on the job" training due to the high costs associated with external professional training at a time when the Council is facing severe budget pressures.
- Time spent on the completion of 2010/11 work was slightly higher than expectation. This was largely spent on completion of the audit of fundamental financial systems on behalf of the Council's external auditor, KPMG.
- Time spent on responsive work is slightly under budget. Whilst Internal Audit has received a large volume of responsive work during the period, it has often been possible to conclude investigations speedily by working in partnership with colleagues in directorates and from HR. In addition, by investing time in the production of the Annual Audit Plan, we have found that many areas that would have been previously classed as responsive work had already been planned for. We will need to keep this under review to ensure that our Plan is kept up to date to reflect the rapidly changing environment in which the Council currently operates.
- Time spent on planned work is slightly below budget. It is expected that this will pick up over the final two months of the year as we complete our work on the Council's fundamental financial systems.