

ROTHERHAM BOROUGH COUNCIL – REPORT TO MEMBERS

1.	Meeting:	Audit Committee
2.	Date:	22 July 2015
3.	Title:	KPMG External Audit Plan 2014/15 (as updated)
4.	Directorate:	Finance and Corporate Services

5. Summary

The Council's external auditor, KPMG, presented their original External Audit Plan for 2014/15 to Audit Committee in February 2015.

The original Plan set out the audit risks, work and approach to be undertaken in relation to the Financial Statements audit but did not contain any details relating to the Value for Money (VFM) audit. This was because at the time that the original Plan was presented, the outcomes from the corporate governance inspection had still to be published.

Following the publication of the corporate governance inspection, KPMG have now had an opportunity to evaluate the findings and how it impacts on their 2014/15 VFM audit.

The updated Plan (attached as Appendix 1) sets out the VFM risks they have identified and scope of the work planned in relation to VFM.

6. Recommendations

That Audit Committee approves KPMG's External Audit Plan 2014/15 (as updated), noting the proposed areas to be covered by the VFM audit.

7. Proposals

The external auditor's responsibilities in relation to local government audits under legislation and the Code of Audit Practice are to:

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

KPMG's External Audit Plan sets out how they will discharge these responsibilities in relation to the 2014/15 financial year.

The Plan sets out the risks that have been identified from the audit planning process and scope and approach to the work that it is to be undertaken.

The Plan attached as Appendix 1 is an updated version from the one originally presented to Audit Committee in February 2015. The original Plan set out the audit risks, work and approach to be undertaken in relation to the Financial Statements audit but did not contain any details relating to the Value for Money (VFM) audit. This was because at the time that the original Plan was presented, the outcomes from the corporate governance inspection had still to be published.

Following the publication of the corporate governance inspection, KPMG have now had an opportunity to evaluate the findings and how it impacts on their 2014/15 VFM audit. This is reflected in the updated Plan which sets out the scope of the work planned in relation to VFM.

Financial Statements

There has been no change to the risks and work planned in relation to the Financial Statements audit in the updated Plan.

As set out in Section 4 (pages 11 to 13 of the Plan) the key audit risks on which KPMG will focus during their audit remain as previously:

- Child Sexual Exploitation claims
- Accounting for school assets used by local authority maintained schools
- Digital Region closure costs, and
- The Council's new banking arrangements

In forming their opinion, KPMG will have regard to the materiality levels on page 6 of the Plan, namely, overall materiality of £13.2m for planning purposes and a £661k triviality threshold (adjusted downwards slightly from the original Plan where the corresponding figures were £15m and £750k respectively).

Value for Money Conclusion

As set out in Section 5 (page 14 of the updated Plan), in reaching their VFM conclusion, KPMG are required to consider two key themes:

- Does the Council have sufficient financial resilience to manage effectively its financial risks and opportunities and sustain a stable financial position, and
- Does the Council have proper arrangements in place to challenge how it secures Value For Money and prioritise resources by, for example, improving productivity and efficiency and achieving cost reductions

As set out in Section 5 on page 18 of the updated Plan the key VFM risks that KPMG have identified in relation to arriving at their VFM Conclusion are:

- The failings in corporate governance arrangements reported in the Corporate Governance Inspection
- The Financing of Child Sexual Exploitation claims, and
- The need to deliver budget savings of £41m over the three years 2016/17 to 2018/19

Given that the Corporate Governance Inspection was only published in February 2015, KPMG are not expecting significant improvements to have been made in the 2014/15 financial year. There is therefore a risk that they will conclude that governance arrangements remain inadequate as in 2013/14.

Reporting

KPMG's findings on the audit of the financial statements and VFM audit will be reported (ISA 260 report) to Audit Committee at its meeting in September. Members will be asked to consider the audit findings prior to giving formal approval for the financial statements to be published as final.

8. Finance

The planned audit fee contained in the original Plan of £186,300 remains the same in the updated Plan and in line with expectations based on the Audit Commission's published work programme and scales of fees. It is based on KPMG's assessment of the level of risk.

9. Risks and Uncertainties

The updated Plan and audit fee is based on the assumptions set out in section 6 of the Plan on page 23.

As stated on page 23, changes to the Plan and the fee may be necessary if significant new audit risks emerge or KPMG's expectations are not met.

At this stage officers believe there is no reason why KPMG's expectations will not be met.

As noted on page 16 of the updated Plan, at this stage, KPMG have not as yet identified the residual audit risks relating to their VFM audit and the scale of work that will be required to address them. This may also have an impact on the final audit fee.

10. Policy and Performance Agenda Implications

Obtaining a good audit report on the 2014/15 financial statements will maintain the Council's excellent reputation for good financial management.

11. Background Papers and Consultation

External Audit Plan 2014/15 (as originally presented February 2015)

External Audit Plan 2014/15 (as updated – attached as Appendix 1)

Report to Audit Committee – February 2015

Audit Appointment letter 2015/16

Audit Commission work programme and scale of fees

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