Report to those charged with governance (ISA 260) 2014/15

Rotherham Metropolitan Borough Council

DRAFT 11 September 2015

Contents

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

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Tim Cutler, 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, 1st Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

Section one

Introduction

This document summarises:

- **the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Authority; and**
- **our assessment of the Authority’s arrangements to secure value for money.**

Scope of this report

This report summarises the key findings arising from:

- our audit work at Rotherham Metropolitan Borough Council (‘the Authority’) in relation to the Authority’s 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Authority’s arrangements to secure economy, efficiency and effectiveness in its use of resources (‘VFM conclusion’).

Financial statements

Our *Revised External Audit Plan 2014/15*, presented to you in July 2015, set out the four stages of our financial statements audit process.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July and August 2015.

It also includes any findings in respect of our control evaluation which we have identified.

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

VFM conclusion

Our *Revised External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Authority.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1.

Acknowledgements

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

Headlines

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

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	Our audit has identified a prior period adjustment totalling £16.3m relating to school land that should have been written out of the balance sheet in 2013/14. This is due to clarification in guidance during the year that land associated with schools which have converted to an academy should be removed rather than retained on the Council's balance sheet. This is a technical accounting adjustment and overall has nil impact on the 2014/15 financial statements. The following adjustments have been made: ▪ Restatement of the Property Plant and Equipment (PPE) figures in the Balance Sheet and associated notes to reflect the disposal in 2013/14 rather than 2014/15. The impact of this adjustment is to decrease the 2013/14 PPE figures by £16.3m and increase the 2014/15 PPE figures by £16.3m. The net impact on the 2014/15 balance sheet is nil; ▪ Follow through of the impact of the adjustments made to the general fund and capital adjustment account; and ▪ Increase to the 13/14 loss on disposal figure in the Adjustments Between Accounting and Funding Basis by £16.3m and decrease the equivalent 2014/15 figure by £16.3m. We have included full details of this prior period adjustment at Appendix 2. This has been adjusted for by the Authority in the final version of the financial statements. We have raised three low priority recommendations, which are summarised in Appendix 1.
Key financial statements audit risks	We identified the following key financial statements audit risks in our 14/15 External audit plan issued in July 2015: ▪ Child Sexual Exploitation Claims; and ▪ Local Authority Maintained Schools. We have worked with officers throughout the year to discuss these key risks and our detail findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.
Accounts production and audit process	The Authority has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Completion	At the date of this report our audit of the financial statements is substantially complete subject to completion of the WGA audit. Before we can issue our opinion we require a signed management representation letter. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Headlines

VFM conclusion and risk areas	We identified the following VFM risks in our External audit plan 2014/15 issued in July 2015: ▪ Governance Arrangements; ▪ Financing Child Sexual Exploitation Claims; and ▪ Budget Pressures. We have worked with officers throughout the year to discuss these VFM risks and our detailed findings are reported in section 4 of this report. The 'Report of Inspection of Rotherham Metropolitan Borough Council' (the Inspection) was only published in February 2015, which led to the Government appointing five Commissioners on the 26th February 2015 to take on all executive responsibilities at the Council. In March, the Commissioners launched the 'Statement of Rotherham Commissioners' mission': "To help the Council secure a safe environment for children and ensure good, sustainable services and regulation such that healthy democratic leadership and accountability can be restored". The mission included twelve key outcomes which have been published. Given that the VFM assessment is for the year ended 31st March 2015, there was only a very limited opportunity for Commissioners to make the changes required towards achieving the mission. Although not covered by the 2014/15 VFM assessment, the Authority has made progress over the six months to the date of this report. The Authority has developed and published a comprehensive Improvement Plan (A Fresh Start) which addresses the findings of the Inspection and Commissioners have recently presented an interim (6 monthly) report to DCLG to show the progress made in that period. We will consider and review this progress as part of our VFM conclusion work in 2015/16. Therefore, in line with expectation, and as a result of these discussions and through review of the findings of the Inspection, we have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2015. We therefore anticipate issuing a qualified VFM conclusion by the deadline of 30 September 2015.

Financial Statements
Proposed opinion and audit differences

Our audit has identified one audit adjustment.

The impact of these adjustments is to:

- **Recognise a £16.3m disposal of school assets in 2013/14 rather than 2014/15 as per the draft financial statements.**

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Authority's financial statements following approval of the Statement of Accounts by the Audit Committee on 23 September 2015.

Audit differences

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

The final materiality (see Appendix 5 for more information on materiality) level for this year's audit was set at £13.2 million. Audit differences below £661k are not considered significant.

Our audit identified one significant audit difference, which we set out in Appendix 2. It is our understanding that this will be adjusted in the final version of the financial statements.

This difference is a result of £16.3m of schools assets being accounted for as being disposed in 2014/15 rather than 2013/14 when the disposal actually took place. This is due to clarification in guidance during the year that land associated with schools which have converted to an academy should be removed rather than retained on the Council's balance sheet.

The tables on the right illustrate the total impact of the audit difference on the General Fund and balance sheet as at 31 March 2015.

The net impact on the General Fund as a result of this audit adjustment is nil.

Movements on the General Fund 2014/15

£m	Pre-audit	Post-audit
Deficit on the provision of services	(123.2)	(106.9)
Adjustments between accounting basis & funding basis under Regulations	168.3	152.0
Transfers to earmarked reserves	48.3	48.3
Increase in General Fund	**93.4**	**93.4**

Balance Sheet as at 31 March 2015

£m	Pre-audit	Post-audit
Property, plant and equipment	989.4	989.4
Other long term assets	51.8	51.8
Current assets	89.5	89.5
Current liabilities	(129.7)	(129.7)
Long term liabilities	(958.7)	(958.7)
Net worth	**42.2**	**42.2**
General Fund	98.4	98.4
Other usable reserves	65.0	65.0
Unusable reserves	(121.2)	(121.2)
Total reserves	**42.2**	**42.2**

Financial Statements (continued)
Proposed opinion and audit differences

We anticipate issuing an unqualified audit opinion in relation to the Authority's financial statements by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

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

Financial Statements (continued)
Significant risks and key areas of audit focus

We have worked with the Authority throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

In our *Revised External Audit Plan 2014/15*, presented to you in July 2015, we identified the significant risks affecting the Authority's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Authority.

Significant audit risk	Issue	Findings
Child Sexual Exploitation Claims	At the time of undertaking our planning work, there was uncertainty around the number and value of Child Sexual Exploitation (CSE) claims that the Authority would receive. There is potential for there to be a significant level of claims and therefore this is a key financial statements audit risk.	We have reviewed the process for identifying and evaluating potential claims to provide assurance over the completeness of the balances included within the financial statements. We have also reviewed the treatment of CSE claims within the financial statements and have considered this against the criteria in IAS 37 Provisions, Contingent Liabilities and Contingent Assets, which provides guidance for the appropriate accounting treatment when there are uncertainties over claims. We have gained assurance that the Authority has taken appropriate legal advice regarding the current claims lodged and the expected number of future claims. We believe that the amount being provided for in the financial statements is reasonable based on the current information available. We will continue to monitor the number of claims up to the date that we sign our opinion, and going forward, to assess whether the level of the provision needs to be amended.
Local Authority Maintained Schools	LAAP Bulletin 101 *Accounting for School Assets used by Local Authority Maintained Schools* issued in December 2014 required authorities to review the accounting arrangements for Voluntary-Aided (VA), Voluntary Controlled (VC) and Foundation Schools. They were required to apply tests of control to assets owned by third parties such as church bodies which are made available to school governing bodies under a variety of arrangements. This is a key area of judgement and there is a risk that Authorities could omit school assets from, or include school assets in, their balance sheet.	The Authority has made disposals of £142m in relation to schools (£16m as a prior period adjustment and £126m relating to 2014/15). We have reviewed the Authority's approach to identifying relevant maintained schools and the assessment of the use of school assets by VA, VC and Foundation Schools. The Authority identified four schools which are controlled by Trustees and as such should not be on the Authority's balance sheet. As such, these have been removed from the Authority's balance sheet in 2014/15. The Authority has not identified any additional schools which should be on balance sheet. We believe that the approach taken is in line with LAAP Bulletin 101.

Section three

Financial Statements (continued)
Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, presented to you in July 2015, we identified two areas of audit focus. These are not considered as significant risks but areas of importance where we would carry out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for each area of audit focus.

Area of audit focus	Issue	Findings
Digital Region Limited	During 2013/14 the Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). Significant costs had already been provided for in earlier years, when these costs became accruable under the accounting standard governing provisions (IAS37).	The provision in the 2014/15 accounts has reduced to £2.2 million, from £5.8 million in 2013/14. This reduction is due to the provision being utilised as the costs of closure are realised. We have maintained a watching brief on DRL during the year, as outlined in our audit plan, and are not aware of any increasing costs which would indicate a higher provision is required at year end. The company was placed in to members' voluntary liquidation on 30 June 2015 to complete the orderly wind down of DRL. The liquidator has taken control of the Company's cash reserves to settle the company's remaining obligations. At this stage, the remaining provision should adequately cover the Council's share of the outstanding costs of closure.
Transition to new bank account	As part of the Co-Op's rationalisation of its portfolio, it is no longer providing banking services to the public sector. As such, the Authority has procured a new banking service provider (NatWest). The transition was planned for February 2015.	The transition to the new bank account took place between February and April 2015. Examples of actions the Authority took to ensure an effective transition included the following: - Running both bank accounts in parallel for a number of months, in case there were any issues; - Informing all suppliers of changes to the Authority's bank account details; - Cancelling old cheques raised on the Co-Op bank account and reissuing them on the NatWest bank account. The process for transfer was reasonable and in line with what we have seen elsewhere in the sector. We reviewed the year end bank reconciliation and did not identify any issues with the year end balance.

Financial Statements (continued)
Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were 'management override of controls' and the 'fraud risk of revenue recognition'.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk		Summary of findings
Management override of controls	Audit areas affected ■ All areas	Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit. In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual. There are no matters arising from this work that we need to bring to your attention.
Fraud risk of revenue recognition	Audit areas affected ■ None	Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. In our External Audit Plan 2014/15 we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue. This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Financial Statements (continued)
Accounts production and audit process

The Authority has a well established and effective accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was good.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

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

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority continues to maintain an effective financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate
Completeness of draft accounts	We received a complete set of draft accounts on 29 June 2015. The Authority has made a small number of presentational changes to the accounts presented for audit however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	We issued our Accounts Audit Protocol including our required working papers for the audit in January 2015. The quality of working papers provided was high and fully met the standards specified in our Accounts Audit Protocol.
Response to audit queries	Officers resolved all audit queries in a timely manner.

Financial Statements (continued) Completion

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

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

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

Declaration of independence and objectivity

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

In relation to the audit of the financial statements of Rotherham Metropolitan Borough Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Although we are confident that this does not constitute a threat to our independence, Members should also be aware that the KPMG Foundation has made a donation to Barnardos to support the ongoing work in Rotherham around developing children's services. Rotherham MBC are also funding aspects of this project. We, and PSAA, are satisfied that this work is being carried out sufficiently at arms length to the Authority so as not to impact on our independence. We will of course maintain a watching brief over this relationship into the future.

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

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Acting Strategic Director of Finance and Corporate Services for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2014/15 financial statements.

VFM conclusion

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

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Background

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

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

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

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

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.

The following pages include further details of our VFM risk assessment

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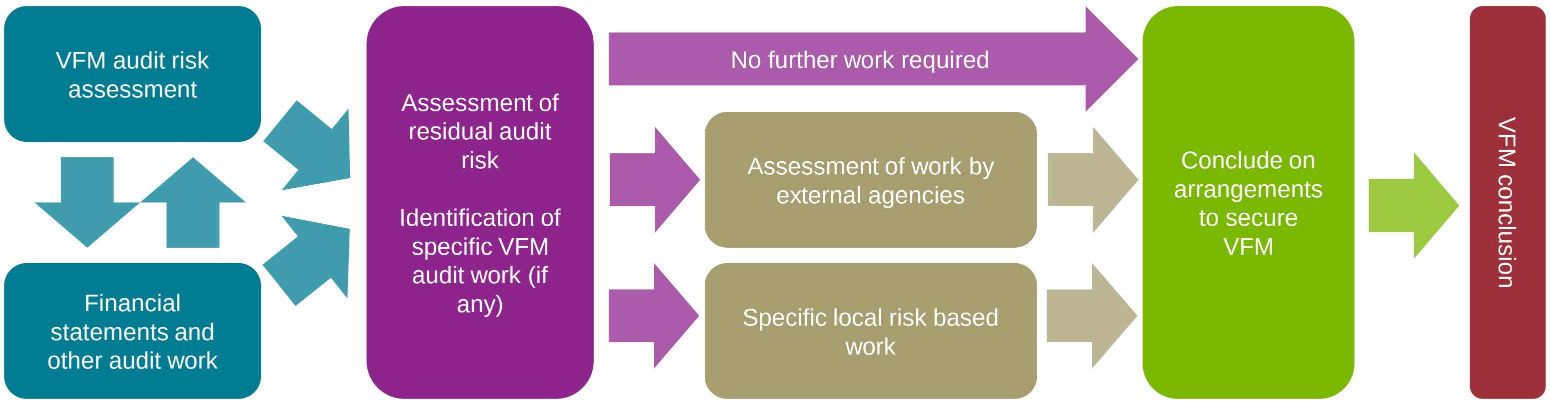
Conclusion

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Specific VFM risks

We have identified a number of specific VFM risks.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Work completed

In line with the risk-based approach set out on the previous page, and in our *External Audit Plan* we have:

- assessed the Authority's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

Key findings

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

We concluded that we needed to carry out additional work for some of these risks. This work is now complete and we also report on this below.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Governance Arrangements	The 'Report of Inspection of Rotherham Metropolitan Borough Council' (Casey Review) highlighted serious failings across the Authority in relation to governance and as a result, five Commissioners were appointed by the Government in February 2015. Given the evidence identified by the Inspection, we issued an adverse VFM conclusion for 2013/14. There is a risk that the governance arrangements in place for 2014/15 are not adequate to achieve economy, efficiency and effectiveness.	To respond to the failings identified by the Inspection, the Authority developed an improvement plan. Given that the Inspection only reported in February 2015, we were not expecting significant changes in respect of governance arrangements for 2014/15, however we still needed to form a judgement for our 2014/15 VFM conclusion. Since arriving at the Authority, the Commissioners have developed a robust and comprehensive improvement plan and have started to actively implement a programme of initiatives and changes in governance arrangements in line with the Improvement Plan which will be fundamental in re-establishing the essential component parts of an effective, modern local authority. In the context of our 2014/15 VFM conclusion however, the significant weaknesses identified in the Authority's arrangements, and the fact that our review only covers the period to 31 March 2015, meant there was not sufficient time to address these weaknesses. We are therefore unable to be satisfied the Authority has improved arrangements sufficiently to secure economic, efficient and effective use of resources.

Specific VFM risks (continued)

We have identified a number of specific VFM risks.

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
Financing Child Sexual Exploitation Claims	Since the Professor Alexis Jay report into Child Sexual Exploitation was published in August 2014, a number of people have come forward to make claims against the Authority. The final costs associated with these claims are not yet known but there is a risk that this could place significant financial pressure on the Authority due to the scale of the claimants coming forward. This could have a significant impact on the Authority's financial resilience.	The Authority has had a number of people lodge claims against them in relation to Child Sexual Exploitation. The Authority has taken experienced legal advice and although the final number of claimants is not yet known, the Authority has included a provision within their accounts at a reasonable level. This provides some protection for financial resilience in future years, however the provision should be continually reviewed as the actual number and cost of claims are known. The Authority should continue to review the financial impact of these claims and assess the impact on the medium term financial strategy.
Budget Pressures	The Authority's budget over the next three years identifies a saving need of £41m to principally address future reductions to local authority funding alongside service cost and demand pressures. In addition to this, Rotherham MBC also faces cost pressures following the reports by Professor Alexis Jay into Child Sexual Exploitation in Rotherham and the Report of the Inspection of Rotherham Council. As a result of these, significant changes to Children and Young People Services as well as organisation wide corporate governance are required and have started to be made in 2014/15 and will continue into future years. This will place financial pressure on the directorate and the wider Authority. The need for savings and dealing with cost pressures in CYPS will have a significant impact on the Authority's financial resilience.	In 2014/15 the Council set a revenue budget for General Fund services (excluding schools) of £209m. The actual outturn of £208m resulted in an underspend of £1.144m. We have continued to assess the controls the Authority has in place to ensure sound financial standing. In setting the 2015/16 revenue budget the Council recognised the likely additional costs in responding effectively to the Jay Report, the Ofsted inspection and the corporate governance inspection. Early in-year financial monitoring is indicating that these pressures are likely to be more acute than expected. The authority is seeking to take early, remedial action to bring the forecasts into line with its original budget plan. Going forward however, the outlook for 2016/17 to 2018/19 has a current funding gap of £41m which may rise given the current in-year cost pressures linked to the need to improve services, in particular in children's services. The Council has adopted a fresh approach to its budget process working more closely with partners and communities and is looking to develop an early, outline three year Medium Term Financial Strategy. In the current national and local context, this will be a significant challenge for the Authority and we will continue to monitor the effects this funding gap has on both the continuity of services and also the long term financial outlook for the Council.

Appendix 1: Key issues and recommendations

We summarise recommendations identified from our current year audit work

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

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

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

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	❸	**Journal Authorisation Controls** As part of our audit work we review the controls around authorisation of journals. At Rotherham MBC, the process is that if a member of staff needs a journal raising, they email the relevant approver, who then emails the journal processing team to say the journal is ready for processing. At present, the wording of the email is "please process the attached journal". This does not make it clear whether the journal has been authorised, or if it has come directly from the person who requires the journal to be raised. There is a risk that journals have not been appropriately approved prior to being processed. To make it clear that the journal has been authorised, the standard wording on the emails to the processing team should be changed to "I authorise this journal, which has been requested by [name of requestor], to be processed". This then gives a clear trail of who requested the journal and who has authorised it.	The Chief Accountant and Systems Manager have reinforced the need for existing journal authorisation procedures to be followed by issuing fresh guidance.

Appendix 1: Key issues and recommendations (continued)

We summarise recommendations identified from our current year audit work

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
2	❸	**School Bank Account Reconciliations** As part of our work on the year end bank reconciliations, it was noted that the schools we selected for testing had performed their bank reconciliations to 13 March 2015, rather than 31 March 2015. This is due to annual leave and internal deadlines. Although the difference in days should not have a material impact on the Authority's accounts, this still represents a control weakness as the process would not pick up any issues with transactions in the last two weeks of the year. Reminders should be sent to schools in January/February 2016 to remind them of the importance of undertaking the year end reconciliation as at 31 March. Schools should then notify the Authorutyl of the person who will be completing this reconciliation. If the school holidays cross year end, sufficient time should be allowed for schools to submit their return.	The Finance Manager CYPS will issue clear instructions for 2015/16 year end that all school bank reconciliations should be performed as at 31 March 2016
3	❸	**Useful Economic Life of Intangible Assets** During our audit work, we reviewed the register of intangible assets along with the useful economic life (UEL) of the assets in order to recalculate the amortisation costs within the financial statements. The standard UEL of an intangible asset is three years. We identified a number of assets, including the FIS Information System and Elections Management System, which had been fully amortised but were still in use. There is a risk that the three year UEL for all intangible assets is not appropriate and therefore assets could have no value when they are still in use. The UEL of all current intangible assets should be reviewed. When a new asset is purchased an estimate should be made of how long the Authority intends to use the asset for. This would then become the UEL for that asset.	The Finance Manager Capital will ensure that a review of intangible asset useful lives is conducted in advance of 2015/16 year end

Appendix 2: Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

Material misstatements

A prior period adjustment was identified in relation to schools fixed assets which sit within property, plant and equipment (PPE) on the balance sheet. In 2013/14, the Council wrote out of the balance sheet 12 schools which had converted to academies in year. Although the buildings were removed from the balance sheet, the land remained as the Authority awaited the outcome of the CIPFA guidance on accounting for schools. The Council decided to dispose of the land associated with schools that had converted to academies following the clarification to the guidance. The land, with a value of £16.3m, was then removed from the balance sheet in 2014/15. However, as the land transferred out of the control of the Council in 2013/14, these assets should have been written out of the balance sheet retrospectively in 2013/14. This has led to a prior year adjustment. The impact of the prior period adjustment on the balance sheet and general fund in 2014/15 is nil as the removal has still taken place but in the prior year.

The changes in the prime accounts are set out below. We have also detailed the changes in the property plant and equipment note. We have not outlined the impact on all the other notes, however we would be happy to provide this detail on request.

Balance Sheet	2013/14 Original £000	2013/14 Restated £000	Movement £000	2014/15 Original £000	2014/15 Restated £000	Movement £000
Property Plant & Equipment	1,134,006	1,117,727	(16,279)	989,404	989,404	0
Long Term Assets	1,182,385	1,166,106	(16,279)	1,041,173	1,041,173	0
Net Assets	265,188	248,909	(16,279)	42,188	42,188	0
Unusable Reserves	(150,668)	(134,389)		121,242	121,242	0

Appendix 2: Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

CIES	2013/14 Original £000	2013/14 Restated £000	Movement £000	2014/15 Original £000	2014/15 Restated £000	Movement £000
Other operating expenditure net costs	47,432	63,711	16,279	143,287	127,008	(16,279)
Deficit on provision of services net costs	30,177	46,456	16,279	120,737	104,458	(16,279)
Total Comprehensive I&E	(99,506)	(83,227)	16,279	222,238	205,959	(16,279)

Movement in Reserves Statement	2013/14 Original £000	2013/14 Restated £000	Movement £000	2014/15 Original £000	2014/15 Restated £000	Movement £000
Surplus or (deficit) on provision of services General Fund Balance	(30,637)	(46,916)	(16,279)	(123,174)	(106,895)	16,279
Adjustments between accounting basis & funding basis under regulations General Fund Balance	34,009	50,288	16,279	168,259	151,980	(16,279)

Appendix 2: Audit differences

This appendix sets out the audit differences.

The financial statements have been amended for all of the errors identified through the audit process.

There is no net impact on the General Fund and HRA as a result of the amendments.

Note 19: Property Plant & Equipment						
	2013/14 Original £000	2013/14 Restated £000	Movement £000	2014/15 Original £000	2014/15 Restated £000	Movement £000
Other land & building – Derecognition Disposals	(40,672)	(56,765)	16,093	(146,299)	(130,206)	(16,093)
PPE Under Construction – Other movements in cost valuation	(8,097)	(8,283)	186	(30,148)	(29,962)	186
Other land & building – opening net book value	476,534	476,534	0	450,173	434,044	(16,093)
PPE Under Construction – opening net book value	26,980	26,980	0	39,471	39,285	(186)
Other land & building – closing net book value	450,137	434,044	(16,093)	315,546	315,546	0
PPE Under Construction – closing net book value	39,471	39,285	(186)	23,378	23,378	0

Non material audit differences

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them.

A number of minor amendments focused on presentational improvements have also been made to the draft financial statements. The Finance Team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 3: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Authority.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

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

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

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

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

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

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

General procedures to safeguard independence and objectivity

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

Appendix 3: Declaration of independence and objectivity (continued)

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

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

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

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

Auditor declaration

In relation to the audit of the financial statements of Rotherham Metropolitan Borough Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 4: Materiality and reporting of audit differences

For 2014/15 our materiality is £13.2 million for the Authority's accounts.

We have reported all audit differences over £661k for the Authority's accounts to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in July 2015

Materiality for the Authority's accounts was set at £13.2 m which equates to around 1.75 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £661k for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

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

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

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

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

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

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

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

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

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

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

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

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

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

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

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

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

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

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

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

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

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

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (http://www.psaa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/).

The latest Annual Regulatory Compliance and Quality Report showed that we are meeting the overall audit quality and regulatory compliance requirements.

cutting through complexity™