

Summary Sheet

Council Report

Audit Committee – 20 July 2016

Title

External Audit 2015/16 – Progress

Is this a Key Decision and has it been included on the Forward Plan?

No.

Strategic Director Approving Submission of the Report

Judith Badger – Strategic Director of Finance and Customer Services

Report Author(s)

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Ward(s) Affected

All

Executive Summary

The Council's external auditor, KPMG, has a duty to:

- Give an opinion on the Council's financial statements, and
- Conclude on whether the Council has arrangements in place to secure value for money in the use of its resources

KPMG has issued a letter attached as an Appendix to this report which sets out progress on the 2015/16 external audit.

Recommendation

That Audit Committee notes KPMG's letter and the progress made on the 2015/16 external audit.

List of Appendices Included

Appendix 1 – KPMG 2015/16 External Audit Progress letter

Background Papers

Code of Audit Practice 2015

KPMG External Audit Plan 2015/16

Consideration by any other Council Committee, Scrutiny or Advisory Panel

No

Council Approval Required

No

Exempt from the Press and Public

No

External Audit 2015/16 - Progress

1. Recommendation

That Audit Committee notes KPMG's letter and the progress made on the 2015/16 external audit.

2. Background

2.1 The Code of Audit Practice 2015 (the Code) published pursuant to Schedule 6 paragraph 2 of the Local Audit and Accountability Act 2014 sets out the way in which the external auditor should discharge their statutory duties under the Code. The Code (now maintained by the National Audit Office following the demise of the Audit Commission in March 2015) applies with effect from 2015/16.

2.2 Schedule 1 to the Code sets out the external auditor's statutory responsibilities as being to:

(i) Give an opinion on whether the Statements of Accounts give a true and fair view of the Council's financial position and financial performance for the year being reported on and whether they have been prepared in accordance with proper practice, and

(ii) Conclude on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources (known as the Value for Money conclusion).

2.3 The second of these duties is reflective of the fact that the audit of a public sector organisation is wider in scope than that of the private sector requiring public stewardship and the use of resources to be audited in addition to giving an opinion on the financial statements.

2.4 The Code requires that external auditors' work should be risk-based and proportionate to meeting their statutory responsibilities and tailored to the local circumstances of the Council and the risks this gives rise to. The External Audit Plan for 2015/16 previously reported to Audit Committee in April 2016 sets out the approach to the audit of the financial statements and Value for Money conclusion and the risks that have been identified.

3. Key Issues

3.1 2015/16 External Audit - Progress

3.1.1 The letter appended to this report sets out KPMG's progress on the 2015/16 External Audit. As outlined KPMG do not feel it necessary to present an Interim Audit Report to the Committee as through the work to date KPMG have not identified any significant issues which require reporting. The small number of matters discussed with officers will be included in the ISA260

report produced at the conclusion of the audit which is due for presentation to Committee in September.

- 3.1.2 To remind/inform Members of the issues referred to in the progress letter the following is provided as a summary of the areas of audit attention covered by the External Audit Plan.

3.2 Audit of the Financial Statements

- 3.2.1 Materiality is key to financial reporting as it determines the amount by which items or disclosures within the Statement of Accounts would need to be misstated or omitted before it would reasonably influence a reader of the accounts. It also therefore acts as a guide to what audit procedures need to be performed to determine whether the Statement of Accounts are free from material misstatement.

- 3.2.2 The External Audit Plan set out the significant risks and areas of audit focus that KPMG have identified from their planning process which will require closer audit attention and the work they intend to carry out in relation to these items. Specifically these are:

- New Housing Management System – Significant Audit Risk
- Child Sexual Exploitation claims – Area of Audit Focus, and
- Accounting for the Better Care Fund – Area of Audit Focus

- 3.2.3 KPMG will report the outcomes from their audit of the financial statements in a report to Audit Committee in September (ISA 260 report).

3.3 Value for Money Conclusion

- 3.3.1 The External Audit Plan confirmed that the adoption of the new Code in 2015 has not fundamentally affected the approach external auditors should take in reaching their Value For Money conclusion but there is a subtle change to the criteria that are being used.

- 3.3.2 The Plan set out the risks KPMG have identified requiring special audit attention, namely:

- Governance arrangements, in particular, the improvements made since the Council made its “Fresh Start”
- Financing Child Sexual Exploitation claims and
- Financial pressures the Council finds itself under from having to make substantial savings

- 3.3.3 KPMG will report their Value For Money Conclusion findings in the ISA 260 report that will go to Audit Committee in September.

4. Options considered and recommended proposal

- 4.1 Having an audit under the Code is a statutory requirement. As such there is no discretion on whether or not to comply.

5. Consultation

- 5.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that there is a clear understanding of the risks identified in the External Audit Plan and supporting information KPMG will require to evidence that they have been addressed satisfactorily.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The External Audit Plan set out the timetable for reporting formally key stages of the audit. The ISA 260 report has been scheduled for September to enable the Council to meet the statutory deadline for publishing its audited financial statements of 30 September.

7. Financial and Procurement Implications

- 7.1 The planned audit fee is £140,828. This is in line with the published work programme and scale of fees for 2015/16 set by the Audit Commission prior to its demise. This represents a 25% reduction on the 2014/15 audit fee.

8. Legal Implications

- 8.1 None, other than to note that the External Auditor's work is planned to meet external auditors' statutory responsibilities under the Local Audit and Accountability Act 2014 and Code of Audit Practice 2015

9. Human Resources Implications

- 9.1 There are no Human Resource implications arising from the report.

10. Implications for Children and Young People and Vulnerable Adults

- 10.1 There are no implications arising from the proposals to Children and Young People and Vulnerable Adults.

11. Equalities and Human Rights Implications

- 11.1 There are no implications arising from this report to Equalities and Human Rights.

12. Implications for Partners and Other Directorates

- 12.1 Partners, stakeholders, the media and general public may take an interest in the Value For Money Conclusion as an independent assessment of the progress that the Council has made over the course of 2015/16.

13. Risks and Mitigation

- 13.1 Steps have been taken to ensure that appropriate and sufficient evidence is provided for the significant risks and areas of audit focus identified in the External Audit Plan.

14. Accountable Officer(s)

Judith Badger (Strategic Director of Finance and Customer Services)

Approvals Obtained from:-

Strategic Director of Finance and Corporate Services:- Judith Badger

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