

Summary Sheet

Council Report

Audit Committee

Title

External Audit ISA 260 Report

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

No.

Strategic Director Approving Submission of the Report

Stuart Booth – Assistant Director of Financial Services

Report Author(s)

Simon Tompkins (Finance Manager)

Finance & Customer Services Directorate

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Ward(s) Affected

All

Executive Summary

The ISA 260 report attached at Appendix 1 sets out KPMG's overall conclusions from their 2015/16 audit in relation to their two statutory objectives:

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

This represents the final stage of the audit process in which Members are asked to consider KPMG's findings before formally approving the 2015/16 Statement of Accounts for publication as final (Appendix 2) and to issue KPMG with the Letter of Management Representations (attached as Appendix 3) which KPMG require to complete their audit.

Members will note that KPMG intend to issue an unqualified opinion on the Statement of Accounts.

In relation to the "value for money" conclusion, KPMG have acknowledged that a considerable amount of progress has been achieved during 2015/16 in line with the Corporate Improvement Plan. However, because further work remains to be done for all the required improvements to be completed and become fully embedded, it has been necessary to issue an adverse opinion in 2015/16, as was the case in 2014/15.

Recommendations

The Audit Committee is asked to:

- i. Consider KPMG's overall audit findings from their 2015/16 audit as set out in the ISA 260 report attached at Appendix 1;**
- ii. Having taken due regard of these findings, formally approve the 2015/16 Statement of Accounts attached as Appendix 2 for publication as final; and**
- iii. Approve that KPMG be issued with the Letter of Management Representation attached as Appendix 3**

List of Appendices Included

Appendix 1 – KPMG's ISA 260 report

Appendix 2 – 2015/16 Statement of Accounts to be published as final

Appendix 3 – Letter of Management Representation

Background Papers

CIPFA Code of Practice on Local Authority Accounting 2015/16

Accounts and Audit Regulations 2015

Interim Audit Letter 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 ISA 260 report

1. Recommendations

The Audit Committee is asked to:

- i. Consider KPMG's overall audit findings from their 2015/16 audit as set out in the ISA 260 report attached at Appendix 1;**
- ii. Having taken due regard of these findings, formally approve the 2015/16 Statement of Accounts attached as Appendix 2 for publication as final; and**
- iii. Approve that KPMG be issued with the Letter of Management Representation attached as Appendix 3**

2. Background

- 2.1 This represents the final stage of the audit process for 2015/16. Members have previously received KPMG's Audit Plan for 2015/16 which set out the audit approach KPMG planned to take to discharge their audit objectives and the risks they had identified in relation thereto (April 2016 Audit Committee), and, an interim position statement setting out progress following the planning and controls evaluation stages of their audit (July 2016 Audit Committee).
- 2.2 The ISA 260 report attached as Appendix 1 summarises KPMG's overall conclusions from their 2015/16 audit in relation to their two statutory objectives:
 - To give an opinion on the Council's financial statements, and
 - To conclude on whether the Council has arrangements in place to secure value for money in the use of its resources (Value for Money Conclusion)
- 2.3 In order to complete the audit process in compliance with the Accounts and Audit Regulations 2015, the Audit Committee, as the body charged with governance within the Council, is required to formally resolve that the Statement of Accounts be approved for publication. Approval can now take place as the period for local electors to exercise their rights to ask questions of the auditor or to raise a formal objection that an item of account is unlawful has expired – it ended on 11 August 2016.
- 2.4 KPMG also require as part of their audit completion processes, that they are provided with a Letter of Management Representations providing additional assurance on certain matters. The Letter of Management Representations (attached as Appendix 3) was considered by SLT on 6 September 2016 and has been signed on their behalf by the Strategic Director of Finance and Customer Services: It now also needs to be agreed and signed on behalf of Audit Committee.

3. Key Issues

3.1 Statement of Accounts

- 3.1.1 The unaudited 2015/16 Statement of Accounts was published on the Council's website on 30 June 2016 alongside the draft Annual Governance Statement and Narrative Report.
- 3.1.2 A report was brought before Audit Committee in July 2016 to highlight key aspects of the 2015/16 Statement of Accounts and changes to local authority financial reporting.
- 3.1.3 The unaudited Statement of Accounts has now been audited by KPMG. We are pleased to report, that **no audit adjustments** have been necessary other than a small number of presentational changes. All of these presentational changes have been incorporated into the final version of the Statement of Accounts which Audit Committee are being asked to approve (Appendix 2). None of the presentational changes affect the financial performance or financial position of the Council previously reported in the unaudited Statement of Accounts.
- 3.1.4 The ISA 260 report also confirms that:
- Working papers were of a good standard, and
 - Audit queries were dealt with efficiently
- 3.1.5 In terms of the areas of significant audit risk and areas of audit focus, KPMG have confirmed on pages 11 to 13 of the ISA 260, that no issues have been identified and that reasonable professional judgement has been exercised.
- 3.1.6 A small number of recommendations have been made in relation to the accounts production and audit process. These are summarised in Appendix One to the ISA 260 together with management responses. This demonstrates that prompt action was taken to implement the recommendations made in 2014/15.
- 3.1.7 Finally, page 16 to the ISA 260 confirms that there are no other matters which need to be highlighted to Audit Committee other than those included elsewhere in their report.

3.2 Value for Money (VFM) Conclusion

- 3.2.1 Section 4 of the ISA 260 on pages 18 to 23 of the ISA 260 report sets out the approach, risks, work and conclusion reached by KPMG on whether the Council has satisfactory arrangements in place to secure the economy, efficiency and effectiveness in the use of its resources.
- 3.2.2 The conclusion reached, is that the Council has not had proper arrangements in place during 2015/16. However, this is in the context of significant progress having been made in 2015/16 towards delivery of the Corporate Improvement Plan and recognition that the senior management assembled early in 2016 are driving through continuing improvement in 2016/17.

4. Options considered and recommended proposal

- 4.1 There is no discretion on whether to comply with the Code or the Accounts and Audit Regulations. The purpose of the recommendations is for Audit Committee to meet its responsibilities in relation to the closure of the accounts.

5. Consultation

- 5.1 Close liaison continues to be maintained with the Council's External Auditors to ensure that complex accounting issues and action taken in response to changes to the local authority accounting framework are agreed in advance of the financial statements being prepared.

6. Timetable and Accountability for Implementing this Decision

- 6.1 The statutory deadline for publishing the audited financial statements is 30 September. KPMG anticipate giving an unqualified opinion before this date which will enable this deadline to be met.

7. Financial and Procurement Implications

- 7.1 There are no financial or procurement implications directly associated with this report, other than continuing to produce good quality financial statements and supporting working papers which meet KPMG's expectations will help to minimise the audit fee.

8. Legal Implications

- 8.1 None, other than ensuring compliance with the requirements of the Accounts and Audit Regulations 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 There are no other implications arising from this report to Partners or other directorates.

13. Risks and Mitigation

- 13.1 Robust project management arrangements have been put in place to ensure that the financial reporting timetable is adhered to and quality standards met.

14. Accountable Officer(s)

Stuart Booth - Assistant Director of Financial Services

To insert – KPMG’s ISA 260

To insert – 2015/16 Statement of Accounts

Draft Letter of Management Representation

KPMG LLP

1 Sovereign Square
Sovereign St
Leeds
LS1 4DA

[Date]

[Salutation]

This representation letter is provided in connection with your audit of the financial statements of Rotherham MBC (“the Authority”), for the year ended 31 March 2016, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority’s expenditure and income for the year then ended; and
- ii. whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in the Accounts and Audit Regulations 2015, for the preparation of financial statements that:
 - i. give a true and fair view of the financial position of the Authority as at 31 March 2016 and of the Authority’s expenditure and income for the year then ended;
 - ii. have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

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

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

3. All events subsequent to the date of the financial statements and for which IAS 10 *Events after the reporting period* requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole.

Information provided

5. The Authority has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Authority for the purpose of the audit; and
 - unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Authority confirms the following:
 - i) The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- ii) The Authority has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;and
 - b) allegations of fraud, or suspected fraud, affecting the Authority's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware. All related party relationships

and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 *Related Party Disclosures*.

11. The Authority confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Authority's ability to continue as a going concern as required to provide a true and fair view.
- b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the Authority to continue as a going concern.

12. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

The Authority further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,

have been identified and properly accounted for; and

- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

13. The Authority confirms that they have made appropriate enquiries and are satisfied that the value of the new Waste Management Contract PFI asset is not materially misstated in the Authority's Balance Sheet.

This letter was tabled and agreed at the meeting of the Audit Committee on *[date]*.

Yours faithfully,

[Chair of the Audit Committee]

[Chief Financial Officer]

Optional cc: [Audit Committee]