



External Audit Report 2015/16

Rotherham Metropolitan Borough Council

9 September 2016



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The contacts at KPMG in connection with this report are:

Tim Cutler
Partner

KPMG LLP (UK)

Tel: 0161 246 4774
tim.cutler@kpmg.co.uk

Debra Chamberlain
Senior Manager

KPMG LLP (UK)

Tel: 0161 246 4189
debra.chamberlain@kpmg.co.uk

Thilina De Zoysa
Assistant Manager

KPMG LLP (UK)

Tel: 0113 231 3539
thilina.dezoysa@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. Public Sector Audit Appointments issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

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Section one: Introduction



This document summarises:

- The key issues identified during our audit of the financial statements for the year ended 31 March 2016 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 MBC ('the Authority') in relation to the Authority's 2015/16 financial statements; and
- The work to support our 2015/16 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our External Audit Plan 2015/16, presented to you in April 2016, set out the four stages of our financial statements audit process.



We previously reported on our work on the first two stages in our Interim Audit Letter 2015/16 issued in July 2016.

This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July 2016.

It also includes any additional findings in respect of our control evaluation which we have identified since we issued our Interim Audit Letter 2015/16.

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 External Audit Plan 2015/16 explained our risk-based approach to VFM work. We have now completed the work to support our 2015/16 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 2015/16 financial statements of the Authority and the fund.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations.

Acknowledgements

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



Section two: Headlines



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

This table summarises the headline messages. Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Authority's financial statements by 30 September 2016. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	<p>We are pleased to report that there are no uncorrected or corrected audit differences.</p> <p>A number of minor amendments focused on presentational improvements have been made to the draft financial statements.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risks in our 2015/16 External audit plan issued in April 2016.</p> <ul style="list-style-type: none"> — New housing management system (significant audit risk) — Child sexual exploitation (CSE) claims (other area of audit focus) — Accounting for the Better Care Fund (other area of audit focus) <p>We have worked with officers throughout the year to discuss these key risk(s) and our detailed 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.</p>



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

Accounts production and audit process	<p>We received complete draft accounts by 30 June 2016 in accordance with the DCLG deadline. The accounting policies, accounting estimates and financial statement disclosures are in line with the requirements of the Code.</p> <p>The quality of the accounts and the supporting working papers was good, consistent with the prior year. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2014/15</i> relating to the financial statements.</p> <p>As in previous years, we will debrief with the finance team to share views on the final accounts audit. Hopefully this will lead to further efficiencies in the 2016/17 audit process. In particular we would like to thank Authority Officers who were available throughout the audit visit to answer our queries.</p>
VFM conclusion and risk areas	<p>We identified the following VFM risks in our External audit plan 2015/16 issued in April 2016.</p> <ul style="list-style-type: none"> — Governance arrangements — Financing CSE claims — Reserves and financial position <p>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.</p> <p>The 'Report of Inspection of Rotherham Metropolitan Borough Council' (the Inspection) was published in February 2015. The Authority developed and published a comprehensive Improvement Plan (A Fresh Start) which was agreed with Government in May 2015 for a two year period and addresses the findings of the Inspection. Since their appointment in late February 2015, during the course of 2015/16, Commissioners provided regular, quarterly updates to Secretaries of State on the improvements being delivered at the Council, including detailed six monthly progress reports in August 2015 and February 2016.</p> <p>Overall, it is clear that significant progress has been made in relation to the Improvement Plan during 2015/16 and continues to be made. Not least, the Authority now has a substantive strategic leadership team to drive the ongoing implementation of the Improvement Plan, specifically now the Phase Two Action Plan, from May 2016. Given that this team has only taken office from early 2016, the impact of their work will only be felt substantively in 2016/17.</p>



This table summarises the headline messages for the Authority. Sections three and four of this report provide further details on each area.

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

VFM conclusion and risk areas (cont.)	<p>Although significant progress has been made, as at February 2016, over half of the areas in the Improvement Plan were yet to be completed and there nevertheless remains a significant programme of improvement work to complete. This, in combination with the fact that the new substantive strategic leadership team were only appointed in the final quarter of the year under audit (2015/16), suggests that the team will require further time to fully implement and embed the improvements to governance.</p> <p>We have therefore concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing a qualified VFM conclusion by 30 September 2016.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete.</p> <p>You are required to provide us with representations on specific matters such as your going concern assertion and whether the transactions in the accounts are legal and unaffected by fraud. We provided a draft of this representation letter to the Section 151 Officer on 23 August 2016. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us.</p> <p>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.</p>



Section three: Financial Statements

Proposed opinion and audit differences



We have not identified any issues in the course of the audit that are considered to be material.

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, 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 21 September 2016.

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 two for more information on materiality) level for this year's audit was set at £10 million. Audit differences below £500k are not considered significant.

We did not identify any material misstatements.

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 2015/16 ('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.

Significant audit risks



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 *External Audit Plan 2015/16*, presented to you in April 2016, we identified the significant risks affecting the Authority's 2015/16 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.

New Housing Management System

— Risk

The Council implemented a new housing management system in the year. OHMS operated for the first part of the year and was then decommissioned with the UH (IHMS) system going live from October 2015.

Income and expenditure in relation to housing is a significant proportion of the Council's activities. There is a risk that the transfer of data between systems could lead to a misstatement in the Council's financial statements if this has not been completed in a robust and controlled manner.

— Findings

We have reviewed the data migration between the old system and the new system and have gained assurance that controls have been put in place to ensure that the data that has been migrated is both accurate and complete. We have also assessed the general IT controls in place on UH to gain assurance that these are designed appropriately and operating effectively. We have not identified any issues through our testing.

Significant audit risks



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 *External Audit Plan 2015/16* 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.

Fraud risk of revenue recognition

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 2015/16* 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.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. 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.

Other areas of focus



In our External Audit Plan 2015/16, presented to you in April 2016, 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 such areas of audit focus.

CSE Claims

— Area

The Council continues to receive and manage CSE related claims. This remains an area of audit focus to provide assurance over the accounting treatment and valuation of these claims in the financial statements.

— Findings

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 consider 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 not identified any issues through the testing completed.

Accounting for the Better Care Fund

— Risk

The Better Care Fund (BCF) came into operation on 1 April 2015 with £3.46 billion of NHS England's funding to Clinical Commissioning Groups (CCGs) ring-fenced for the establishment of the fund in 2015/16 (£23.3m of this fund is assigned to Rotherham Council and CCG). The Care Act 2014 requires a pooled fund to be established between CCGs and local authorities in the form of a section 75 agreement. Local BCF arrangements may be complex and varied, involving a number of valid commissioning and accounting arrangements that raise risks of misunderstanding, inconsistencies and confusion between members of a BCF pooled budget.

— Findings

As part of our audit, we have:

- understood how the fund operates and the processes in place to capture financial reporting information;
- assessed compliance with the 2015-16 Code of Practice and financial reporting implications for the Authority, including agreement of the application of gross and net accounting with the CCG;
- checked that governance issues have been appropriately considered and disclosed in the Annual Governance Statement; and
- Checked the consistency with the CCG audited accounts for the year ended 31 March 2016.

We have not identified any issues through the testing completed.

Judgements



We always consider the level of prudence within key judgements in your financial statements. We have summarised our view below using the following range of judgement:

Level of prudence



Assessment of subjective areas				
Asset/liability class	15/16	14/15	Balance (£m)	KPMG comment
Property, Plant and Equipment valuations	3	4	£1,007 million (PY: £989 million)	<p>The Council values assets on a five year rolling programme in accordance with RICS guidance and revised guidance on housing stock valuations. There have been £76m of capital investment additions in year as well as additions arising from a change in asset values as a result of this year's professional valuation exercise.</p> <p>The most significant addition in year is the Waste Management PFI asset which accounted for nearly £20m of this year's additions. The Council has recognised the Waste Management PFI asset on the balance sheet as it came into use during 2015/16. The value of this has been based on the original PFI model with no up to date valuation completed as it came onto the balance sheet. This does not meet the requirements of the code. Management has now completed a valuation of the asset and we have gained assurance that the value of the asset is not materially misstated but would recommend that assets are valued at the earliest opportunity when they come into use (see Appendix 1).</p> <p>The increase in the asset values are in line with our expectations and therefore we have concluded this to be a balanced judgement with some optimism in relation to the value of the Waste Management asset.</p>
Actuarial gains/losses on pension assets/liabilities	3	3	£74 million (PY: -£185 million)	<p>There has been a reduction in the liability from the previous year due to an increase in the discount rate during the year and a small reduction in the CPI inflation assumption. There was also a small fall in the value of investment market returns over the period for the year end 31st March, which creates a slight decrease in the asset values due to this effect.</p> <p>We have reviewed the assumptions used by the actuary in arriving at the final pension liability. We have used an independent expert actuary services to understand the assumptions used by Authority's pension fund actuary. We also used our own actuarial service reports to check the competency and objectivity of Authority's pension fund actuary. Our work indicated that , assumptions used are prudent and reasonable for year end 31 March 2016 Pension Fund valuation of the Authority and the Authority's pension fund actuary is duly competent and objective in applying such assumptions for pension fund valuation . We have therefore concluded that this is an overall balanced judgement.</p>
Provisions	3	3	£14.1 million (PY: £13.7million)	<p>There has been a small overall increase in the value of provisions. The most significant areas provided for are in relation to the insurance provision and the business rate valuation appeals. We have reviewed the provisions made to ensure that they meet the definition of a provision, per the accounting standards, and to ensure that they have been disclosed appropriately in the Authority's financial statements. Through our work we have concluded that this is a balanced judgement.</p>

Accounts production and audit process



We have noted consistency in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

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 has continued to demonstrate that it has a strong financial reporting process in place. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete set of draft accounts on 30 June 2016.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we discussed with the finance team, set out our working paper requirements for the audit. The quality of working papers provided met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers resolved audit queries efficiently and effectively in a timely manner.

Additional findings in respect of the control environment for key financial systems

We have identified 2 control weaknesses through our detailed audit work in relation to:

- The audit trail for sign off and review of HRA rent reconciliations
- The valuation of the Waste Management asset that was brought into use during the year.

Appendix one provides further details.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2014/15*.

Appendix one provides further details.



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 MBC for the year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Rotherham MBC, 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.

We have provided a detailed declaration in Appendix three 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 Assistant Director of Financial 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 other matters which we wish to draw to your attention in addition to those highlighted in this report.



Section four: Value for Money

VFM Conclusion



Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We follow a risk based approach to target audit effort on the areas of greatest audit risk.

We have concluded that the Authority has not made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

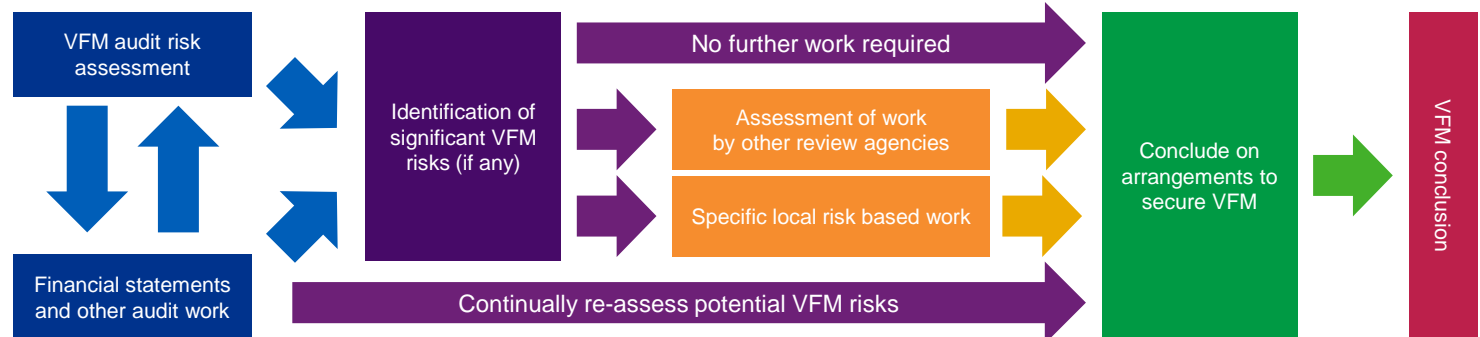
Background

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

The VFM approach is fundamentally unchanged from that adopted in 2014/2015 and the process is shown in the diagram below. However, the previous two specified reporting criteria (financial resilience and economy, efficiency and effectiveness) have been replaced with a single criteria supported by three sub-criteria.

These sub-criteria provide a focus to our VFM work at the Authority.



Conclusion

We have concluded that the Authority has not made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Overall criterion

In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Informed decision making



Not Met

Sustainable resource deployment



Met

Working with partners and third parties



Met

Specific VFM Risks



We have identified a number of specific VFM risks.

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 on the following pages.

Specific VFM Risks




We have identified a number of specific VFM risks.

We have undertaken some detailed work to date in response these risks.

New senior mgt team – corporat gov structure not embedded, recruit to a number of key posts

Assessed outstaning areas of iP against VFM criteria. Still progress to be made for exapole


Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The 'Report of Inspection of Rotherham Metropolitan Borough Council' (Casey Review), dated February 2015, highlighted serious failings across the Authority in relation to governance. Five Commissioners were appointed by the Government in February 2015 to manage the Council. In February 2016 some decision making powers were returned to the Council following Government agreement that services were of predominantly good quality, well-run and have strong leadership in place. Housing, education, public health, planning, highways, leisure, cultural services and planning policy, along with control of budgeting in these areas, were returned to the control of Rotherham Council's Cabinet. Other areas, including children's and adult's social care and licensing, continue to be overseen by Commissioners while improvements continue.</p> <p>The Authority continues to implement the actions within their improvement plan to address the concerns raised in the corporate governance report.</p> <p>Given that the Commissioners were not appointed until February 2015, we will need to consider whether the new arrangements were sufficiently embedded throughout 2015/16 to impact on the Council's ability to achieve value for money.</p>	<p>We reviewed the letters from the Commissioners to the Secretaries of State in August 2015, November 2015 and February 2016. These provided ongoing updates on the Council's Improvement Plan. The February 2016 letter notes that, from the 11th February 2016, a third of the Council's decision making responsibilities were restored to executive councillors demonstrating the progress that the Council has made since the initial CGI report.</p> <p>We also reviewed the detailed 'Commissioners' 12 Month Progress Review' which accompanied the February 2016 letter.</p> <p>Further, we reviewed reports produced by the Authority in relation to the progress made on children's services which was one of the most significant issue areas identified in the CGI.</p> <p>Overall, it is clear that significant progress has been made in relation to the Improvement Plan and continues to be made. Not least, the Authority now has a substantive strategic leadership team to drive the ongoing implementation of the Improvement Plan (specifically now the Phase Two Action Plan from May 2016). Given that this team has only taken office from early 2016, the impact of their work will only be felt substantively in 2016/17.</p>

Specific VFM Risks



We have identified a number of specific VFM risks.

We have undertaken some detailed work to date in response these risks.



Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>This is relevant to the informed decision making sub-criteria of the VFM conclusion.</p>	<p>The Commissioners' 12 month review in February 2016 noted that around half of the actions (45%) in the Improvement Plan's first year had been delivered at that stage, with the remainder broadly on track (5% flagged as at risk of missing required targets). More recently, the Phase Two Action Plan (which was agreed by Commissioners in May 2016), confirmed that 82% of improvement actions in the first phase had been substantively delivered, with all ongoing activity reflected in a refreshed set of second phase activity and actions, through to May 2017.</p> <p>Although this helps to illustrate significant progress made since the arrival of Commissioners, there nevertheless remains a significant programme of improvement work to complete. This, in combination with the fact that the new substantive strategic leadership team were only appointed in the final quarter of the year under audit (2015/16), suggests that the team will require further time to fully implement and embed the improvements to governance.</p> <p>We have assessed the outstanding areas of the Improvement Plan against the VFM criteria and have found that the following arrangements, amongst others are impacted upon:</p> <ul style="list-style-type: none"> • Corporate governance arrangements and the embedding of the new corporate governance structure, with the relatively new senior management team, and their ability to effect change in a short period of time. • Link between front line services and support services within children's services and the impact they have on the sustainability of the improvements already made in the children's services improvement programme.

Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

We have undertaken some detailed work to date in response these risks.


Key VFM risk	Risk description and link to VFM conclusion	Assessment
		<p>Specific risk based work required: Yes</p> <p>We held meetings with the Chief Executive, Strategic Director of Children's Services and the Interim Strategic Director of Adult Social Services throughout the year to understand the specific progress made in relation to the Improvement Programme in relation to adult and children's services. Our findings from these discussions were consistent with our findings above.</p>
	<p>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 sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>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 will need to be kept under review as the actual number and potential cost of claims can be better estimated.</p> <p>The Authority should continue to review the financial impact of these claims and assess the impact on the medium term financial strategy.</p> <p>Specific risk based work required: No</p> <p>The Authority has taken legal advice and has provided for the estimated costs of the claims made. Therefore there is no overall impact on our VFM Conclusion.</p>

Specific VFM Risks (cont.)



We have identified a number of specific VFM risks.

We have undertaken some detailed work to date in response these risks.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>There are significant financial pressures facing the Council in the current and future years. The Council has identified an in year overspend of £9.2m following the use of the £8m transformation reserve and an identified saving amounting to £41m over the next 3 years to principally address future reductions to local authority funding alongside service cost and demand pressures. There continues to be additional budget pressures, mainly in relation to Children's Services as the Council continues with the implementation of their Improvement Plan. The Council plans to take actions to bring this budget into balance in the current year. These financial pressures will have a significant impact on the Council's reserves over the next few years.</p> <p>This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion.</p>	<p>Following the findings of the Professor Jay, Ofsted and Corporate Governance Inspection reports, Rotherham Council is one year into recovery.</p> <p>In 2015/16 the Council set a revenue budget for General Fund services of £203.554m. The actual outturn of £203.413m resulted in an underspend of £0.141m after taking into account the significant investment of additional resources to support both the Corporate and Children's Services Improvement Plans. The Council's Revenue Reserves including HRA and Schools, were £100.478m at the year end, a reduction of £18.721m due to a technical accounting adjustment in the prior year and planned use of the transformation reserve.</p> <p>On the 9th Dec 2015, Full Council approved a new, outline Medium Term Financial Strategy for 2016/17 to 2018/19 which was updated for the investment and savings proposals put forward and approved by Full Council on the 2nd March 2016. Subsequently, the estimated funding gap for the period 2017/18 to 2019/20 has been updated and presented to Cabinet in July alongside an outline of the budget process and timetable. The report showed that the Council is potentially facing a funding gap of at least £42m up to 2020 (£19.6m for 2016/17) and is aiming to put in place a sustainable plan for delivering these savings.</p> <p>Early financial monitoring forecasts suggest that the council, like many other councils with social care responsibilities, is facing continuing significant demand and cost pressures which are being somewhat further increased as the Council continues to improve its Children's Services in line with the Improvement Plan.</p> <p>We are satisfied that the Authority has appropriate arrangements in place to work towards financial sustainability and to identify cost savings plans to achieve the estimated funding gaps identified.</p> <p>Specific risk based work required: No</p> <p>We will continue to monitor the effects that this years financial pressures and the future funding gaps have on both the continuity of services and also the long term financial outlook for the Council.</p>



Appendices

Appendix 1: Key issues and recommendations

Appendix 2: Audit differences

Appendix 3: Independence and objectivity

Key issues and recommendations

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.

We will formally follow up these recommendations next year.

Priority rating for recommendations

1	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.	2	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.	3	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.
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	3	<p>Audit trail for the preparation and review of HRA reconciliations</p> <p>As part of our controls testing we were unable to find evidence of sign off for the preparation and/or review of the reconciliation between the new housing rents system and general ledger. These reconciliation were being carried out on a rolling basis during 2015/16.</p> <p>There is a risk that errors go unidentified due to a lack of review of reconciliations.</p> <p>To note, we were able to view the completed reconciliations and verify the balances within them and therefore have assurance that they have been completed appropriately in the year.</p> <p>Recommendation</p> <p>We recommend that all reconciliations are reviewed with sign off to evidence this.</p>	Evidence of reconciliations has been retained on a monthly basis from early 2016/17 to demonstrate that they have been completed on a regular basis. Reconciliations will be signed off as evidence of formal review.

Key issues and recommendations

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.

We will formally follow up these recommendations next year.

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Valuation of Waste Management Asset</p> <p>The Waste Management PFI came into use during the year. Once assets have been recognised, under section 4.3 of the Code, an assessment needs to be made as to whether the asset value needs to be re-measured. No such revaluation took place at the time the asset came into use and therefore there is a risk that the value of the asset may be misstated.</p> <p>Subsequent to our onsite audit work we have now obtained a formal valuation of the asset from the Council's valuer. We have discussed this with our technical expert and have not identified any issues with the process used to value this asset. We have therefore gained assurance, for the current year audit, that the value of the asset has not been materially misstated.</p> <p>We were originally seeking a specific management representation on the value of this asset but no longer require this due to the completion of the formal valuation.</p> <p>Recommendation</p> <p>We recommend that the latest valuation of the asset is reflected in the 2016/17 statement of accounts, and that all new assets are valued when they come into use in line with the requirements of the code.</p>	Agreed. The new valuation will be reflected in the accounts at the start of 2016/17.

Appendix one

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2014/15 and re-iterates any recommendations still outstanding.

Number of recommendations that were:

Included in original report	3
Implemented in year or superseded	2
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
1	3	<p>Journal Authorisation Controls</p> <p>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.</p> <p>There is a risk that journals have not been appropriately approved prior to being processed.</p> <p>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.</p>	The Chief Accountant and Systems Manager have reinforced the need for existing journal authorisation procedures to be followed by issuing fresh guidance.	<p>Instructions were issued in September 2015 to ensure that it was made clear who had authorised a journal for processing. This amendment to the procedure came into force immediately at that time. Subsequent communications were sent out in March 2016 to reinforce the need for compliance, following KPMG's interim visit.</p> <p>The full implementation of this recommendation will be checked during the 2016/17 audit cycle.</p>

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
2	③	<p>School Bank Account Reconciliations</p> <p>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.</p> <p>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.</p> <p>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 Authority 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.</p>	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	Instructions were issued in October 2015 to adopt the recommended practice. The year end audit confirmed that the recommendation has been put into practice. No further follow up required.

Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2014/15.

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2016
3	③	<p>Useful Economic Life of Intangible Assets</p> <p>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.</p> <p>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.</p> <p>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.</p>	The Finance Manager Capital will ensure that a review of intangible asset useful lives is conducted in advance of 2015/16 year end	Instructions were issued in October 2015 to adopt the recommended practice. The year end audit confirmed that the recommendation has been put into practice. No further follow up required.

Appendix two

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

We are pleased to report that there are no material corrected audit differences.

Non material audit differences

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

Materiality and reporting of audit differences

For 2015/16 our materiality is £10 million for the Authority's accounts.

Materiality

The assessment of what is material is a matter of professional judgement 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 2015/16, presented to you in April 2016.

Materiality for the Authority's accounts was set at £10 million which equates to around 1.3 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 £500k 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.

Declaration of independence and objectivity

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the Code of Audit Practice.

Requirements

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

"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."

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.

Declaration of independence and objectivity (cont.)

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.

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.

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 MBC for the financial year ending 31 March 2016, we confirm that there were no relationships between KPMG LLP and Rotherham MBC, 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 three

Audit Independence

Audit Fees

Our scale fee for the audit was £140,828 plus VAT (£187,770 in 2014/15). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in April 2016. Our scale fee for certification for the HBCOUNT is £15,826 plus VAT (£20,663 in 2014/15). Fees for other grants and claims have not yet been finalised however we expect this to be in the region of £6,000 plus VAT in line with the prior year.

Non-audit services

We have not been engaged to provide any other non-audit services during the year.



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The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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