



External audit report 2016/17

**Rotherham Metropolitan Borough
Council**

—

DRAFT September 2017



Summary for Audit Committee

Financial statements This document summarises the key findings in relation to our 2016-17 external audit at Rotherham Metropolitan Borough Council ('the Authority'). We previously reported on our interim work in our *External Audit Interim Report 2016/17* in July 2017.

This report focusses on our on-site work which was completed in August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages [4 – 5].

Subject to all outstanding queries being resolved to our satisfaction we anticipate issuing an unqualified audit opinion on the Authority's financial statements before the deadline of 30 September. These outstanding items include:

- **Final review of the financial statements; and**
- **Receipt of the management representation letter.**

We have not identified any audit adjustments

Based on our work, we have raised 2 recommendations. This is in addition to the 3 recommendations raised in our interim report. Details on our recommendations can be found in Appendix 1.

We are now in the completion stage of the audit.

Use of resources We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We therefore anticipate issuing an unqualified value for money opinion subject to the following outstanding matters:

- **Final review of the Annual Governance Statement.**

See further details on page 15.

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

We ask the Audit Committee to note this report.

Contents

The key contacts in relation to our audit 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

Amy Warner

Manager

KPMG LLP (UK)

Tel: 0113 231 3089

amy.warner@kpmg.co.uk

- 2 Summary for Audit Committee
- 4 Section one: financial statements
- 15 Section two: value for money
- Appendices**
- 23 One: Key issues and recommendations
- 26 Two: Follow-up of prior year recommendations
- 28 Three: Audit differences
- 29 Four: Materiality and reporting of audit differences
- 30 Five: Declaration of independence and objectivity
- 31 Six: Audit fees

This report is addressed to Rotherham Metropolitan Borough Council (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 Appointments' website (www.psa.co.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.

We are committed to providing you with a high quality service. 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 engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Andrew Sayers (on 0207 694 8981, or by email to andrew.sayers@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3H.

Section one

Financial Statements



We anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements by 30 September 2017. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a total surplus on provision of services of £32.6m, mainly due to the increase in the valuation of housing stocks held by the Council. The General Fund Working Balance remains at £11.3m, the same position as at 31st March 2016.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
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1. Significant changes in the pension liability due to LGPS Triennial Valuation

Why is this a risk?

During the year, the Local Government Pension Scheme for South Yorkshire Pension Fund (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation.

The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data.

There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by South Yorkshire Pension Authority, who administer the Pension Fund.

Our work to address this risk

We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls.

We have substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with your Pension Fund audit team to gain assurance over the pension figures. We have also reconciled the accounts disclosures to the actuary report and gained assurance over the appropriateness of the assumptions used through discussion with our pension specialists.

2. Valuation of Waste Management PFI

Why is this a risk?

The Council recognised the Waste Management PFI asset on the balance sheet for the first time as it came into use during 2015/16. The value of this was based on the original PFI model with no up-to-date valuation completed. This does not meet the requirements of the CIPFA Code. Management completed a valuation of the asset during our final audit visit and confirmed that the value of the asset was not materially misstated.

Management agreed that they would reflect the revised valuation of just under £20 million in the 2016/17 financial statements.

There is a risk that the asset is not included in the Council's accounts at the appropriate value.

Our work to address this risk

We have discussed the current value of the PFI asset and have gained assurance that the most up to date value of the asset is included within the accounts.

We have assessed the qualifications and approach adopted by the valuer of the Waste PFI assets and have no issues to note.

We have considered the appropriateness of the valuation basis adopted e.g. fair value or modern equivalent asset basis and have agreed the revaluation movements to the accounting entries.

Significant audit opinion risks

Work performed

3. Changes in finance team staff

Why is this a risk?

During 2016/17, two core members of the finance team who were responsible for producing the financial statements have retired. In addition, the Assistant Director of Financial Services, who had key oversight over the financial statements, has left the Council. Although two other members of staff remain who have been closely involved with production of the accounts in the past, reducing the number of experienced staff from four to two is likely to lead to capacity issues. Another member of staff is assisting with the production of the accounts, but they have not been involved with year end close down previously.

Within the wider finance team there have also been changes in staffing, with increased use of temporary staff. Temporary staff will be less familiar with the Authority's policies and procedures, so there is an increased risk of controls not being appropriately followed. There is also an increased risk of errors due to lack of experience.

The combined lack of capacity and experience could lead to misstatements in the financial statements.

Our work to address this risk

We have worked closely with the core finance team during the year to plan the audit effectively. The team produced a statement of accounts within the required deadline accompanied by high quality working papers. We have not identified any issues due to the changes in the core finance team or the wider team.

The Authority will need to consider how they meet the requirements of early close in 2018/19. We will work with the team throughout the year to plan this effectively. See recommendation at Appendix 1.

Considerations required by professional standards

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 2016/17* 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 audit focus

We identified one area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	<p>Background</p> <p>CIPFA has introduced changes to the 2016/17 Local Government Accounting Code (Code):</p> <ul style="list-style-type: none">— Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and— Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. <p>The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards.</p> <p>What we have done</p> <p>For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the Authority's general ledger and the Council's internal reporting and found no issues to note.</p>

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions (excluding Business rate appeals)	3	3	The total value of provisions (excluding Business rate appeals) is (£6.7m). The majority of the provisions relate to the estimated value of outstanding insurance claims (£5.3m). We have agreed this figure to workings and supporting evidence provided by the Council and have concluded that this is a balanced judgement.
Business rate appeals provisions	3	3	The Business rate appeals provisions held at year end is (£3.2m). We have reviewed the workings for the provisions and note that these have increased from the prior period based upon more evidence of appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	3	2	The Authority continues its use of the beacon methodology in line with the DCLG's <i>Stock Valuation for Resource Accounting</i> published in November 2016. The Authority has utilised the District Valuer to provide valuation estimates. We have reviewed the instructions provided and have found that the valuation exercise is in line with the instructions. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. We have also seen work performed locally that justifies the utilisation of the 41% Regional Adjustment Factor.
Pensions: Actuarial Assumptions	3	3	The pension liability has increased from £320m to £467m in year, mainly due to a decrease in the discount rate. As part of our work we have engaged our own pensions specialist to review the actuarial assumptions used in relation to the Council's share of the South Yorkshire Pension Fund and this work did not identify any outliers. We also note that the Council lead a local assessment/discussion of assumptions with the actuary demonstrating a review and challenge process giving us further assurance with regards to the veracity of the key assumptions made.

Proposed opinion and audit differences

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion on the Authority's 2016/17 financial statements following approval of the Statement of Accounts by the Audit Committee in September 2017.

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 4 for more information on materiality) level for this year's audit was set at £11 million. Audit differences below £550k are not considered significant.

We did not identify any material misstatements.

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 2015/16 ('the Code'). We understand that the Authority has reviewed these and made a number of minor amendments to the draft financial statements.

Section one: financial statements

Annual governance statement

We have reviewed the Authority's 2016/17 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.

We have made a number of comments in respect of its format and content which the Authority has agreed to amend where significant.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Section one: financial statements

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on 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. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring, however due to the changes in the finance team during the year, preparation for early close down in 2017/18 hasn't been the prime focus of the Authority. We note that the finance team did bring work forward in comparison to prior years and reported to us that the financial statements were substantially complete by 2 June 2017.

We will be holding a debrief with the finance staff after the year end to consider how we work together towards the faster close deadlines required in 2017/18.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 30 June 2017, which is the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol 2016/17 ("Prepared by Client" request) which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations.

We are pleased to report that overall good quality working papers with a clear audit trail were provided.

Response to audit queries

The responses to our audit queries were timely and enabled the audit to progress to the agreed timetable. As a result of this, all of our audit work was completed within the timescales expected with few outstanding queries.



Section one: financial statements

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 2015/16. Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Appropriate IT authorisation for new starters

- We tested a sample of 25 staff to check that they had been appropriately authorised to access the general ledger. Of these, we identified one instance where there was no evidence of authorisation, and one instance where the person who had authorised the form was not on the authorisation list. Although we subsequently obtained evidence that both users were appropriate, this represents a control weakness in the process.

Timely removal of leavers from IT systems

- We obtained a listing of all active users of the general ledger and compared this to a list of leavers per the HR system. We identified two instances where staff had left the organisation but still had access to the ledger at the date of our testing.

Segregation of duty in journals process

- The authorisation of journals takes place outside of the general ledger (e5) through email approval by a relevant senior staff member. The preparation and posting of journals is performed by the same staff member within e5 with no automatic process for confirming the authorisation or ensuring appropriate segregation of duties is in place.

School Bank Account Reconciliations

- As part of our review of bank reconciliations, it was noted that schools produced reconciliations dated the 30th March rather than 31st March as we would expect. There is a risk that there may be reconciling items on the 31st that are not appropriately accounted for.

Further detail and associated recommendations can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 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 2017, 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.

We have provided a detailed declaration in Appendix 5 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 Finance Team 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 2016/17 financial statements.



Section two

Value for money

Our 2016/17 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 have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.



Section two: value for money

VFM conclusion

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.'

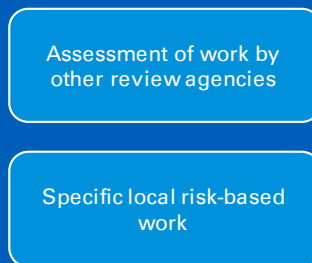
Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

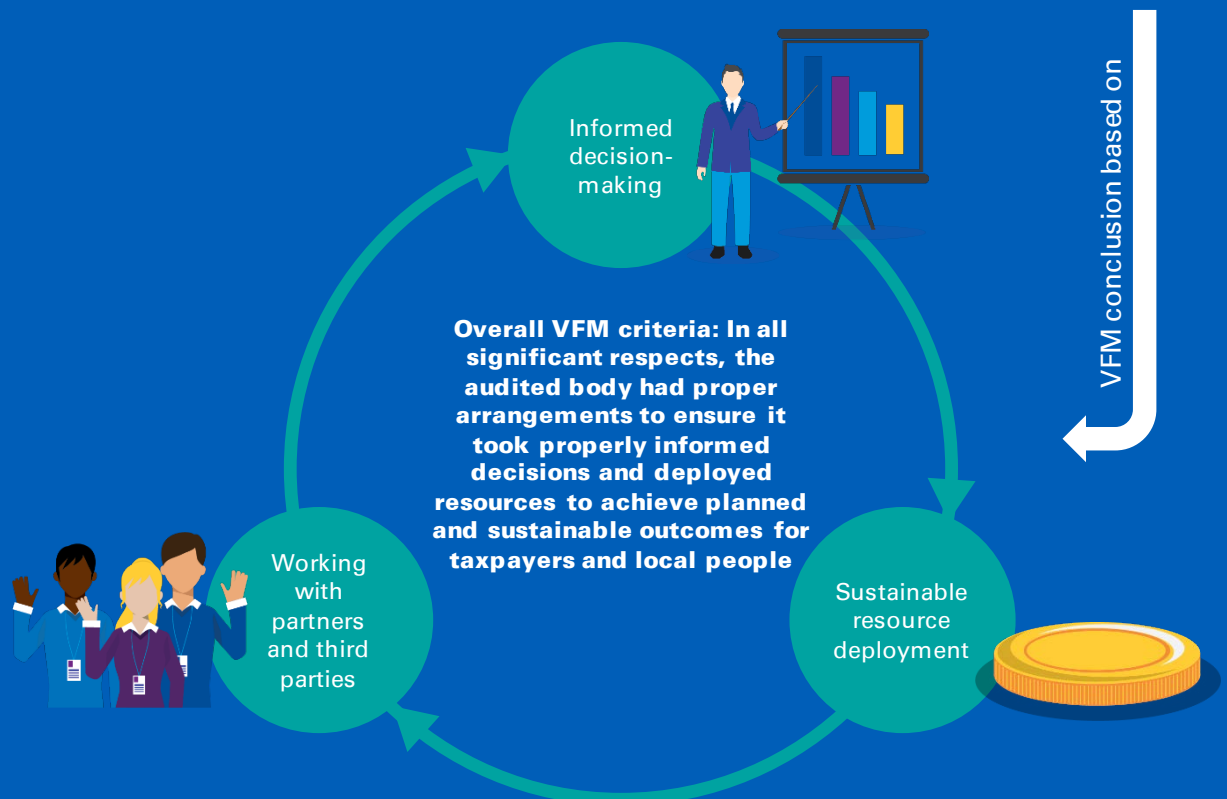
1 Identification of significant VFM risks (if any)



2 Continually re-assess potential VFM risks



3 VFM conclusion



Section two: value for money

The table below summarises our assessment of the individual VFM risk[s] identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary			
VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Governance Arrangements	✓	✓	✓
2. Reserves and Financial Position	✓	✓	✓
Overall summary	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In both cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority’s current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
<p>1. Governance Arrangements</p>	<p>Why is this a risk?</p> <p>The ‘Report of Inspection of Rotherham Metropolitan Borough Council’ (Casey Review) 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. Licensing powers were returned to the Authority in December 2016, with further powers set to return in March 2017.</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 Authority regained part control in 2016, we will need to consider whether the new arrangements were sufficiently embedded throughout 2016/17 to impact on the Council’s ability to achieve value for money.</p> <p>Summary of our work</p> <p>At the time of writing our report, the Commissioners’ latest letter to the Secretary of State for Local Government and Communities reports that the Council has continued to make significant progress on its improvement journey and specifically in relation to five of the six remaining functions not yet restored to Council control. The letter sets out the key aspects of progress and asks the Secretary of State to consider returning to Rotherham Councillors decision-making powers in relation to these functions – community safety, waste management, performance management, asset management, and HR. The Council has now reported that the Secretary of State has stated that he is ‘minded to’ return those powers to the Council.</p> <p>The number of functions that have been returned to be the responsibility of the Council demonstrates the progress that the Council has made since the initial report was published. The Council has continued to work through the improvement plan and has now developed ‘The Rotherham Plan: A new perspective 2025’. This sets out a strategic framework for the Council and its partners. We also note that the return of democratic elections and powers as an important step in this process. However the continued control and influence of the commissioners could indicate a weakness in corporate governance, and the ability for the Council to demonstrate effective arrangements in relation to informed decision making in these areas.</p> <p>To gain assurance over our concerns in relation to possible weaknesses in corporate governance we have completed a detailed review of the Improvement Plan and the recommendations that were outstanding at different points during 2016/17. We specifically focussed on the arrangements that were in place during the year and the embeddedness of these arrangements. From the work completed it is clear that areas outstanding during the year can be categorised as follows:</p>

Significant VFM risks

We have identified two significant VFM risks, as communicated to you in our *2016/17 External Audit Plan*. In both cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Governance Arrangements (continued)	<p>Summary of our work (continued)</p> <ul style="list-style-type: none">• Recommendations that are not significant in terms of the governance arrangements in place at the Council that would impact on informed decision making.• Recommendations that represent longer term projects that the Council has made satisfactory progress on and the outstanding areas don't represent a significant weakness to governance arrangements.• Recommendations that are initiatives to aspire to rather than providing baseline governance arrangements. Achievement of these will place the Council ahead of its peers and therefore do not impact on our VFM assessment of the arrangements in place at the Council during the year. <p>The Council has also completed a self-assessment against the informed decision making criteria within the VFM guidance. This details the arrangements that the Council has had in place throughout the year to support informed decision making including their governance arrangements.</p> <p>We have held interviews with each member of the Strategic Leadership Team to understand the progress made against the improvement plan and to triangulate these discussions with the evidence provided in the Council's self-assessment. We did not identify any issues from these interviews that would impact on our VFM conclusion.</p> <p>Overall, our work suggests that the Council has progressed the actions in the improvement plan sufficiently for us to conclude that there were appropriate embedded governance arrangements in place throughout the year to make informed decisions. We have therefore concluded that there is no impact on our VFM conclusion.</p>

Significant VFM risks	Work performed
2. Reserves and Financial Position	<p data-bbox="444 366 654 391">Why is this a risk?</p> <p data-bbox="444 410 1345 576">There has been a significant shift in the national outlook over the last 12 months, primarily driven by the outcome of the referendum on 23 June 2016 on the UK's membership of the European Union. Consequently GDP growth forecasts have been revised downwards, which potentially reduces the level of any growth in business rates income. Inflationary pressures, service pressures, and a reduction in the local government finance settlement will impact on the Authority's finances.</p> <p data-bbox="444 596 1345 679">In April 2017, the Authority published a draft Medium Term Financial Strategy (MTFS) 2017/18 –2021/22 (which incorporates its Efficiency Plan published April 2016) that sets out a balanced budget for 2017/18.</p> <p data-bbox="444 700 1345 839">From 2018/19, the Authority has identified funding gaps; however it is confident that the targets in the Efficiency Plan are sufficient to bridge the forecast gap in the MTFP and are monitored by the management board. The Authority's proposed new governance arrangements include a specific officer board focussed on the delivery of the Efficiency Plan and associated improvement projects.</p> <p data-bbox="444 859 696 884">Summary of our work</p> <p data-bbox="444 903 1345 959">Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services.</p> <p data-bbox="444 980 1345 1089">The Authority reported an underspend of £765k compared to budget in 2016/17. The savings found within the Regeneration & Environment; Finance & Customer Services; Assistant Chief Executive and Council Wide Services directorates have been off-set by the on-going cost pressures within both Children and Adult services.</p> <p data-bbox="444 1110 1345 1276">We reviewed the financial planning arrangements in place at the Authority and considered the performance against the 2016/17 annual plan. We have also considered the arrangements to prepare the medium term financial plan and the assumptions that underpin this plan. We did not find any indications that the Council does not have proper arrangements in place in relation to sustainable resource development.</p> <p data-bbox="444 1297 1345 1462">Going forward the Authority will need to be mindful of the level of unidentified savings that they have for the current and future years and whether there are adequate arrangements in place to identify these savings. In addition the Authority should consider their arrangements in relation to the setting of budgets compared to the demand for adults and childrens services, to prevent the use of significant virements to the budget during the year.</p>

A close-up photograph of a stack of books on a wooden surface. The books have various colored covers, including a prominent red one. A silver pen lies horizontally in the foreground, its tip pointing towards the left. The background is softly blurred, showing more books and a warm, natural light source. The word 'Appendices' is overlaid in a thin, dark red font, centered horizontally and partially enclosed by two vertical lines of the same color.


Appendices


Key issues and recommendations


Our audit work on the Authority’s 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management’s responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

- 

High priority
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.
- 

Medium priority
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.
- 

Low priority
Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary			
Priority	Number raised in our interim report	Number raised from our year-end audit	Total raised for 2016/17
High	0	0	0
Medium	2	2	4
Low	1	0	1
Total	3	2	5

 <p>Medium priority</p>	<p>1. Preparation for early close</p> <p>The Authority will need to consider how they meet the requirements of early close in 2017/18.</p> <p>There is a risk that the Council do not meet the required deadlines for the preparation and audit of the statement of accounts in 2017/18.</p> <p>Recommendation</p> <p>We will work with the Council throughout the year to plan the close down to support the Council in meeting the deadlines required.</p>	<p>Management Response</p> <p>Accepted</p> <p>Owner</p> <p>Graham Saxton</p> <p>Deadline</p> <p>31/12/2017</p>
 <p>Medium priority</p>	<p>2. Appropriate IT authorisation for new starters</p> <p>We tested a sample of 25 staff to check that they had been appropriately authorised to access the general ledger. Of these, we identified one instance where there was no evidence of authorisation, and one instance where the person who had authorised the form was not on the authorisation list. Although we subsequently obtained evidence that both users were appropriate, this represents a control weakness in the process.</p> <p>There is a risk that a user is granted inappropriate access to the general ledger, which could lead to fraudulent or erroneous postings.</p> <p>Recommendation</p> <p>The authority should ensure that all users gain approval to access the ledger in line with Council procedures.. Members of the IT team should only grant a user access when there is an approved signatory authorising the access.</p>	<p>Management Response</p> <p>Accepted</p> <p>Owner</p> <p>Richard Douthwaite</p> <p>Deadline</p> <p>31/10/2017</p>
 <p>Medium priority</p>	<p>3. Timely removal of leavers from IT systems</p> <p>We obtained a listing of all active users of the general ledger and compared this to a list of leavers per the HR system. We identified two instances where staff had left the organisation but still had access to the ledger at the date of our testing.</p> <p>By not promptly removing user access rights, the Authority is at risk of malicious attack or fraud, especially if a leaver has a grievance with the Authority.</p> <p>Recommendation</p> <p>Where a member of staff is working their notice, IT should be informed of their leave date in advance of them leaving and arrange for their access to be disabled on their leave date.</p> <p>Where a member of staff leaves with immediate effect, IT should be notified immediately so they can disable user access.</p>	<p>Management Response</p> <p>Accepted</p> <p>Owner</p> <p>Richard Douthwaite</p> <p>Deadline</p> <p>31/10/2017</p>



3. Segregation of duty in journals process

The authorisation of journals takes place outside of the general ledger (e5) through email approval by a relevant senior staff member. The preparation and posting of journals is performed by the same staff member within e5 with no automatic process for confirming the authorisation or ensuring appropriate segregation of duties is in place.

There is a risk that the correct authorisation process is not followed and staff can post journals without them being authorised. It should however be noted that our testing did not identify any instances where this had occurred, hence the low priority recommendation

Recommendation

We recommend that the Authority looks into whether the general ledger could be updated to include an authorisation step for journals. We recognise this may have to wait until the next significant ledger upgrade, and as such, until this time, random spot checks should be undertaken by a senior member of the finance team to confirm the process is being appropriately followed. These checks should be recorded and available as audit evidence.

Management Response

Accepted

Owner

Graham Saxton

Deadline

31/03/2018



4. School Bank Account Reconciliations

As part of our review of bank reconciliations, it was noted that schools produced reconciliations dated the 30th March rather than 31st March as we would expect.

There is a risk that there may be reconciling items on the 31st that are not appropriately accounted for.

Recommendation

The closedown timetable for 2017/18 should factor in this issue, and allow schools to run the balancing reports on 1st April to allow reconciliations dated the 31 March to be produced

Management Response

Accepted

Owner

Mick Wildman

Deadline

31/03/2018

Follow-up of prior year recommendations

In the previous year, we raised two recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has implemented all of the recommendations.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	0	0	0
Medium	1	1	0
Low	1	1	0
Total	2	2	0



1. Audit trail for the preparation and review of HRA reconciliations

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 reconciliations were being carried out on a rolling basis during 2015/16. There is a risk that errors go unidentified due to a lack of review of reconciliations.

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.

Recommendation

We recommend that all reconciliations are reviewed with sign off to evidence this.

Management original response

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.

KPMG's September 2017 assessment

Fully implemented



2. Valuation of Waste Management Asset

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.

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.

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.

Recommendation

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.

Management original response

Agreed. The new valuation will be reflected in the accounts at the start of 2016/17.

KPMG’s September 2017 assessment

Fully implemented

Audit differences

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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

We have not identified any adjusted audit differences through our audit procedures.

Unadjusted audit differences

We note that there are no unadjusted audit differences to bring to your attention.

Materiality and reporting of audit differences

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 2016/17, presented to you in March 2017.

Materiality for the Authority's accounts was set at £11 million which equates to around 1.6 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 £550k 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 (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.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Rotherham Metropolitan Borough Council for the financial year ending 31 March 2017, 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 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £140,828 plus VAT (£140,828 in 2015/16), which has remained the same as the prior year.

Our work on the certification of Housing Benefits (BEN01) is planned for September 2017. The planned scale fee for this is £15,497 plus VAT (£15,826 in 2015/16).

Planned fees for other grants and claims which do not fall under the PSAA arrangements is £5,780 plus VAT (£5,780 in 2016/17).

PSAA fee table		
Component of audit	2016/17 (planned fee) £	2015/16 (actual fee) £
Accounts opinion and use of resources work		
PSAA scale fee set for 2016/17	140,828	140,828
Housing benefits (BEN01) certification work		
PSAA scale fee set for 2016/17	15,826	15,826
Total fee for the Authority set by the PSAA	156,654	156,654

All fees are quoted exclusive of VAT.

We are currently discussing a fee variation with management and the PSAA in relation to the additional work completed to form our VFM conclusion. We will disclose the final agreement on this fee variation as part of our Annual Audit Letter.



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