KPMG

External Audit ISA260 Report 2017/18

DRAFT

Rotherham Metropolitan Borough Council

—

27 July 2018

Summary for Audit Committee

This document summarises the key findings in relation to our 2017-18 external audit at Rotherham Metropolitan Borough Council ('the Authority').

This report covers both our on-site work which was completed in June and July 2018 on the Authority's significant risk areas, as well as other areas of your financial statements, and the control environment in place to support the production of timely and accurate financial statements.

Organisational and IT control environment	Overall the organisational and IT control environment is good. We identified a small number of IT control weaknesses in relation to the housing benefit system. (Appendix 1)
Controls over key financial systems	Controls over key financial systems are generally good, however we have noted a number of control improvements in relation to PPE (Appendix 1).
Accounts production	We received the draft accounts on 31 May 2018, which is the statutory deadline for draft account production. Working papers were provided in a timely manner and were of good quality.
Financial statements	**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 31 July 2018.** Based upon our initial assessment of risks to the financial statements (as reporting to you in our *External Audit Plan 2017/18* and updated during our audit) we identified the following significant risks (excluding those mandated by International Standards on Auditing – see Page 11): — **Valuation of PPE** – Whilst the Authority operates a cyclical revaluation approach, the Code requires that all land and buildings be held at fair value. We considered the way in which the Authority ensures that assets not subject to in-year revaluation are overall not materially misstated. As part of our work we identified a number of audit adjustments. These are unadjusted audit differences and are detailed in Appendix 3. — **Pensions Assets & Liabilities** – The valuation of the Authority's pension liabilities and assets, as calculated by the Actuary, is dependent upon both the accuracy and completeness of the data provided and the assumptions adopted. We have reviewed the processes in place to ensure accuracy of data provided to the Actuary and considered the assumptions used in determining the valuation. We identified one unadjusted audit difference in relation to valuation of pension assets (appendix 3). No other issues were identified as a result of our work; and — **Faster Close** – The timetable for the production of the financial statements has been significantly advanced with draft accounts having to be prepared by 31 May (2017: 30 June) and the final accounts signed by 31 July (2017: 30 September). We worked with the Authority in advance of our audit to understand the steps being taken to meet these deadlines and the impact on our work. We noted that more errors around PPE were identified during our work, which is in part due to faster close as the finance team had less time to discuss things with the valuers. We have identified four audit adjustments, none of which affected the prime financial statements. See Appendix 3 for details. We also identified eight unadjusted audit differences (Appendix 3). Based on our work, we have raised eight recommendations. Details of our recommendations can be found in Appendix 1.

Summary for Audit Committee (cont.)

Financial Statements (cont.)

As at the date of drafting this report, we still have the following procedures to complete:

- Evidence from fixed asset valuer on assumptions used;
- Final review of pension assumptions used by the actuary;
- Completion of WGA work; and
- Updating our work in response to a small number of outstanding queries.

We are now in the completion stage of the audit. We anticipate issuing our audit opinion by 31 July 2018. We will issue our completion certificate in advance of the WGA deadline of 31 August 2018.

Value for money arrangements

We have completed our risk-based work to consider whether, in all significant respects, the Authority has proper arrangements to ensure it 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

We set out our assessment of those areas requiring additional risk based work in our *External Audit Plan 2017/18* and have updated this assessment during our interim visit. As a result of this we have identified the following significant VFM audit risks:

— **Financial Sustainability** – As a result of reductions in central government funding, and other pressures, the Authority is having to make additional savings beyond those from prior years. We have considered the way in which the Authority identifies, approves, and monitors both savings plans and how budgets are monitored throughout the year. We did not identify any issues as a result of our work.

— **Delivery of Children's Services Improvement Plan** – In 2017/18 the Authority has continued to work towards delivering the improvement plan set up in order to allow the full return of powers from the Commissioners. We considered progress against this plan, and found that the improvement plan has been fully implemented, and the Authority continues to work hard ensuring it delivers a high quality children's service and respond to any regulator comments.

See further details on page 20.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.

In addition, we have not had to exercise any other audit powers under the Local Audit & Accountability Act 2014.

Acknowledgements

We would like to take this opportunity to thank Officers and Members for their continuing help

Section one

Control Environment

Organisational and IT control environment

We have identified no significant issues with the Authority's organisational and IT control environment and consider that the overall arrangements that have been put in place are reasonable.

Despite this, we have noted a number of areas for further improvement in relation to the Northgate system which covers council tax, NNDR and housing benefits. These are detailed within our key findings below.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit. We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology ("IT") to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data and system changes.

Key findings

We consider that your organisational and IT controls are effective overall, but noted a number of areas for further improvement:

- **Northgate User Review** - The review of users of the Northgate (housing benefit) system is currently undertaken on an 8 month rolling cycle. However, this should be increased to at least a quarterly control to ensure that all leavers are identified and their access disabled in a timely manner.
- **Northgate Administrator Access** - There is a generic user account for the Northgate system called 'RBUSER' which can be accessed by anyone with the password. There is an action log that records all activities performed by this user. However, this is not reviewed on a periodic basis. We recommend reviewing this action log monthly as a detective control to identify any issues.
- **Northgate Privileged Access Authorisation** - We have determined that there are no formalised procedures specific to Northgate for establishing a new privileged access user. We recommend that all new privileged access users are appropriately authorised as necessary, including the level of privileges.

As there were mitigating manual controls in place, such as the monthly reconciliation of the Northgate system to the General Ledger, the above issues did not impact our audit approach, but represent weaknesses in controls which should be addressed.

Recommendations are included in Appendix 1.

. Aspect of controls	Assessment
Organisational controls:	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
IT controls:	
Access to systems and data	2
System changes and maintenance	3

Key	
1	Significant gaps in the control environment.
2	Deficiencies in respect of individual controls
3	Generally sound control environment.

Controls over key financial systems

The controls over the majority of the key financial systems are sound.

However, there are some weaknesses in respect of valuation of PPE which could be improved.

Work completed

We review the outcome of internal audit's work on the financial systems to influence our assessment of the overall control environment, which is a key factor when determining the external audit strategy.

Where we have determined that this is the most efficient audit approach to take, we evaluate the design and implementation of the control and then test selected controls that address key risks within these systems. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Our assessment of a system will not always be in line with your internal auditors' opinion on that system. This is because we are solely interested in whether our audit risks are mitigated through effective controls, i.e. whether the system is likely to produce materially reliable figures for inclusion in the financial statements.

Key findings

Based on our work we have determined that the controls over the majority of the key financial systems are sound. However, we noted the following areas for improvement:

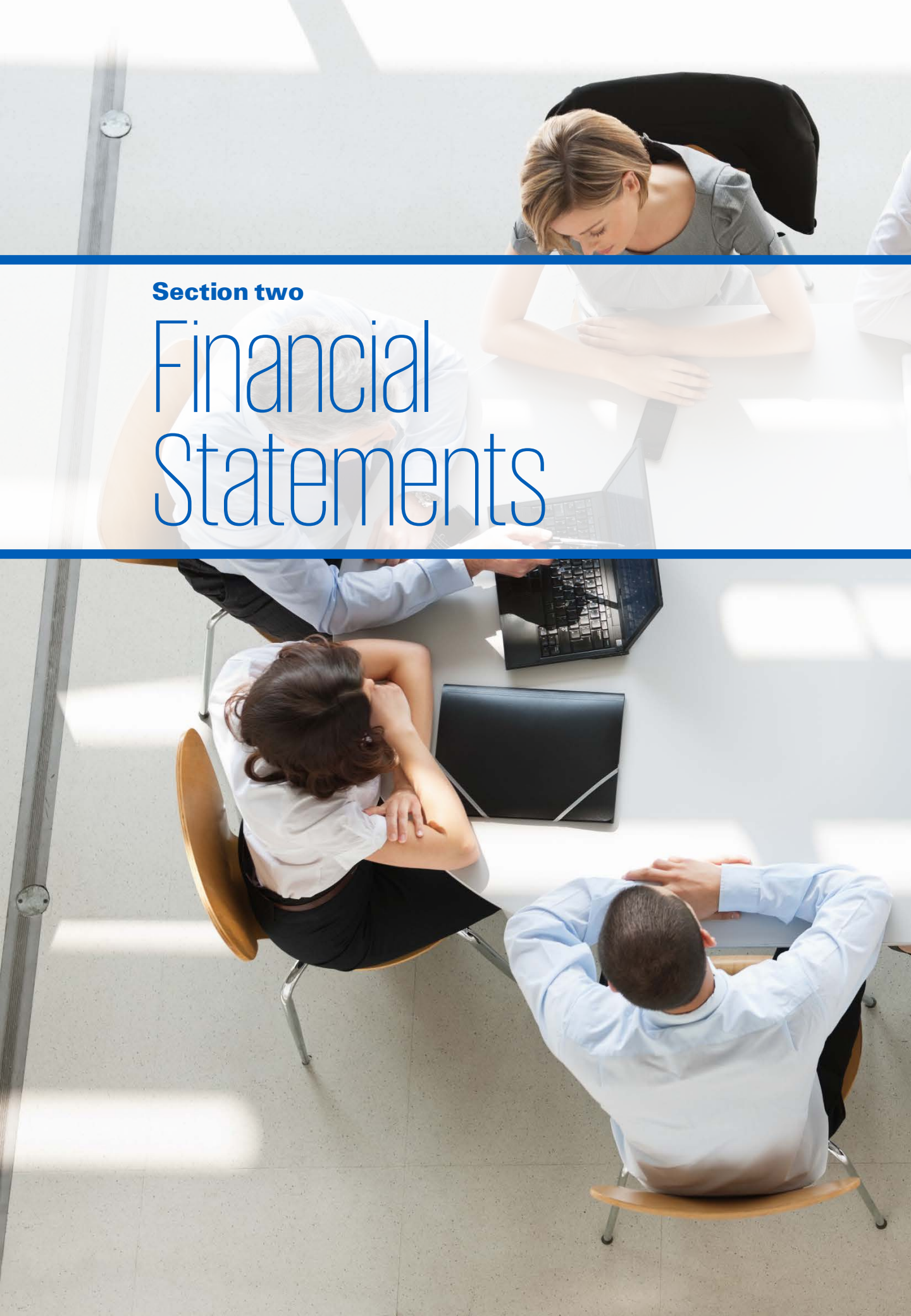
- As part of our substantive work on valuation of PPE, we noted that, although land and buildings are valued on a five year rolling basis, there is insufficient consideration of the impact that any changes in valuations may have on those assets not revalued in year (recommendation one).
- We noted two instances where a change in how a valuation was undertaken compared to previous years had led to a change in value of assets which should have been applied to all assets in that particular class (recommendation two)
- Asset valuations are currently taken as at 1 April, rather than as at the balance sheet date of 31 March. This could lead to material misstatements in the accounts if there are large movements in build costs or the values of properties in year (recommendation three)
- There were two errors identified in the PPE figures - a school being disposed of in the wrong period, and incorrect figures being provided by the valuer. Although these are mainly due to human error, the faster close process left less time for the detailed quality checks that have previously occurred. (recommendation seven).
- When schools convert to academies, although the actual building is taken out of the asset register, the fixtures and fittings are still left in there at nil net book value. This overstates the gross book value and accumulated depreciation within the fixed asset note (recommendation eight)

Recommendations are included in Appendix 1.

Controls over key financial systems (cont.)

Aspect of controls	Assessment
Property, Plant and Equipment	2
Cash and Cash Equivalents	3
Pension Assets and Liabilities	3
Non pay expenditure	3
Payroll	3
Housing benefits expenditure	3
Business rates income	3
Council tax income	3
HRA rental income	3
HRA repairs and maintenance expenditure	3

Key	
1	Significant gaps in the control environment
2	Deficiencies in respect of individual controls
3	Generally sound control environment



Section two

Financial Statements

Accounts production and audit process

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.

The Authority's overall process for the preparation of the financial statements is adequate.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2016/17*.

Accounts practices and production process

The Authority incorporated a number of measures into its closedown plan to improve the project management of this complex process. Specifically, the Authority recognised the additional pressures which the earlier closedown brought and we engaged with Officers in the period leading up to the year end in order to proactively address issues as they emerge.

We consider that the overall process for the preparation of your financial statements is good.

We also consider the Authority's accounting practices appropriate.

Going concern

The financial statements of the Authority have been prepared on a going concern basis. We confirm that we have identified no significant matters which would, in our view, affect the ability of the Authority to continue as a going concern.

Implementation of recommendations

We raised a total of 5 recommendations in our ISA 260 Report 2016/17. The Authority has implemented all of the recommendations relating to the financial statements in line with the timescales of the action plan. Further details are included in Appendix 2.

Completeness of draft accounts

We received a complete set of draft accounts on 31 May 2018, thereby meeting the statutory deadline.

Quality of supporting working papers

We issued our Accounts Audit Protocol to the finance team on 27 March 2018. This important document sets out our audit approach and timetable. It also summarises the working papers and other evidence we require the Authority to provide to support our audit work. This helps the Authority to provide audit evidence in line with our expectations. We worked with management to ensure that working paper requirements are understood and aligned to our expectations. We are pleased to report that this has resulted in good-quality working papers with clear audit trails.

Response to audit queries

We are pleased to report that our agreed turnaround time for dealing with audit queries was achieved by Officers, including those who are not part of the finance team. As a result of this, all of our audit work were completed within the timescales expected with no outstanding queries.

Specific audit areas

We anticipate issuing an unqualified audit opinion on the Authority's 2017-18 financial statements by 31 July 2018.

For the year ending 31 March 2018, the Authority has reported a deficit on provision of services of £75.3m. The impact on the General Fund has been a decrease of £14.3m.

Auditing standards require us to consider two standard risks for all organisations. We consider these as a matter of course in our audit and will have set out the findings arising from our work in our ISA 260 Report below.

01

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.

02

Fraudulent 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 2017-18* 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.

Over the following pages we have set out our assessment of the specific significant risks and areas of audit focus we identified in relation to the audit of the Authority's financial statements.

Specific audit areas

Significant Audit Risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Authority.

Risk:

Valuation of PPE

The Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate fair value at that date. The Authority has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. As a result of this, however, individual assets may not be revalued for four years.

Given the number of assumptions that go into the valuation process and the values involved, relatively small changes in an assumption could have a material impact on the financial statements. There is also a risk that the carrying value of those assets not revalued in year differs materially from the year end fair value. In addition, as the valuation is undertaken as at 1 April, there is a risk that the fair value is different at the year end.

Our assessment and work undertaken:

We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach.

In addition, we considered the impact of changes in the value of revalued assets on assets that had not been revalued in year to determine whether the fair values had moved materially since their last revaluation.

In relation to those assets which have been revalued during the year we reviewed the accounting entries made to record the results of the revaluation in order to ensure that they were appropriate.

We also assessed the valuer's qualifications, objectivity and independence to carry out such valuations and reviewed the methodology used (including testing the underlying data and assumptions).

As a result of this work we identified a number of errors in the values listed in the financial statements (See Appendix 3). As these are cumulatively below our materiality threshold they are unadjusted audit differences, and will be put through the 2018/19 accounts. The main reasons for the differences are as follows:

- Asset valuations are undertaken as at 1 April, but the balance sheet date is 31 March. The valuations in the accounts did not take into account any potential in-year movement of build costs or property valuations;
- The Authority values their land and building and council dwellings on a five-year rolling basis. This means each year, only 20% of their asset base has its value checked, and the impact on the other 80% not considered. Also, where an asset had been revalued and the change in value should have affected the whole asset class, this impact had not been considered;
- We identified one instance where the valuer had provided the wrong figure to the finance team; and
- We identified one instance where a school had incorrectly been recorded as having been converted to an academy at year end, when it didn't convert until 1 April 2018.

We also identified a number of control weaknesses around considering the fair value of all land and buildings (Appendix 1). These included:

- Improving communications between the finance team and the valuer;
- Considering whether whole asset classes should be revalued if an in-year valuation indicates a change in value caused by changing assumptions or previous errors; and
- Updating the value of assets up to the balance sheet date.

We have set out our view of the assumptions used in relation to accounting for Property, Plant & Equipment at page 13.

Specific audit areas (cont.)

Significant Audit Risks – Authority (cont.)

Risk:

Pension Liabilities

The net pension liability represents a material element of the Authority's balance sheet. The Authority is an admitted body of South Yorkshire Pension Fund, which had its last triennial valuation completed as at 31 March 2016. This forms an integral basis of the valuation as at 31 March 2018.

The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions and methodology which results in the Authority's overall valuation.

There are financial assumptions and demographic assumptions used in the calculation of the Authority's valuation, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Authority's employees, and should be based on appropriate data. The basis of the assumptions is derived on a consistent basis year to year, or updated to reflect any changes.

There is a risk that the assumptions and methodology used in the valuation of the Authority's pension obligation are not reasonable. This could have a material impact to the net pension liability accounted for in the financial statements.

Our assessment and work undertaken:

As part of our work we reviewed the controls that the Authority has in place over the information sent directly to the Scheme Actuary. We also liaised with the auditors of the Pension Fund in order to gain an understanding of the effectiveness of those controls operated by the Pension Fund. This included consideration of the process and controls with respect to the assumptions used in the valuation. We also evaluated the competency, objectivity and independence of Mercer.

We reviewed the appropriateness of the key assumptions included within the valuation, compared them to expected ranges and involved a KPMG Actuary to provide a specialist assessment of those assumptions. We also reviewed the methodology applied in the valuation by Mercer.

In order to determine whether the net pension liability has been appropriately accounted for we also considered the valuation of pension assets. We obtained assurance from the Pension Fund auditors (KPMG) over the overall value of fund assets.

Our work has also considered the roll forward of the assets undertaken by the actuaries and the allocation of those assets to the Authority. We noted that, consistent with many pension funds given the faster close process of Local Government accounts, the actuaries have used estimated investment rates of returns for the end of 2017/18, which our work has considered. The difference in actual and estimated investment rates of return is a £5.7m increase in the pension asset. This is recorded as an unadjusted audit difference (Appendix 3).

As a result of this work we determined that there are no material errors in relation to the pension asset and liabilities figures shown within the financial statements.

We have set out our view of the assumptions used in valuing pension assets and liabilities at page 13.

Specific audit areas (cont.)

Significant Audit Risks (cont.)

Risk:

Faster Close

In prior years, the Authority has been required to prepare draft financial statements by 30 June and then final signed accounts by 30 September. For years ending on and after 31 March 2018 however, revised deadlines apply which require draft accounts by 31 May and final signed accounts by 31 July.

These changes represent a significant change to the timetable that the Authority has previously worked to. The time available to produce draft accounts has been reduced by one month and the overall time available for completion of both accounts production and audit is two months shorter than in prior years.

In order to meet the revised deadlines, the Authority may need to make greater use of accounting estimates. In doing so, consideration will need to be given to ensuring that these estimates remain valid at the point of finalising the financial statements. In addition, there are a number of logistical challenges that will need to be managed. These include:

- Ensuring that any third parties involved in the production of the accounts (including valuers, actuaries, subsidiaries and subsidiary auditors) are aware of the revised deadlines and have made arrangements to provide the output of their work in accordance with this;
- Revising the closedown and accounts production timetable in order to ensure that all working papers and other supporting documentation are available at the start of the audit process;
- Ensuring that the Audit Committee meeting schedules have been updated to permit signing in July; and
- Applying a shorter paper deadline to the July meeting of the Audit Committee meeting in order to accommodate the production of the final version of the accounts and our ISA 260 report.

In the event that the above areas are not effectively managed there is a significant risk that the audit will not be completed by the 31 July deadline.

There is also an increased likelihood that the Audit Certificate (which confirms that all audit work for the year has been completed) may be issued separately at a later date if work is still ongoing in relation to the Authority's Whole of Government Accounts return. This is not a matter of concern and is not seen as a breach of deadlines.

Our assessment and work undertaken:

We liaised with Officers in preparation for our audit in order to understand the steps that the Authority was taking in order to ensure it met the revised deadlines. We also advanced audit work into the interim visit in order to streamline the year end audit work.

We received draft financial statements on the statutory deadline of 31 May 2018. We have noted more audit and presentational adjustments than we have in previous years.

As a result of this work we determined that work with the valuers needs to be undertaken earlier in the year, so any issues that arise can be dealt with prior to the draft accounts being produced. We also recommend ensuring adequate time for quality checks is built into the accounts closedown process (See Appendix 1 for recommendations).

Judgements

We have considered the level of prudence within key judgements in your 2017-18 financial statements and accounting estimates. We have set out our view below across the following range of judgements.

Level of prudence

0	1	2	3	4	5	6
Audit Difference	Cautious		Balanced		Optimistic	**Audit Difference**
	Acceptable Range					

Subjective area	2017-18	2016-17	Commentary
Provisions (excluding Business Rates)	3	3	The total value of provisions (excluding Business rate appeals) is (£6m). The majority of the provisions relate to the estimated value of outstanding insurance claims (£5m). We have agreed this figure to workings and supporting evidence provided by the Council and have concluded that this is a balanced judgement.
Business Rates provision	3	3	Since 2013/14 the Authority has been responsible for a proportion of successful rateable value appeals. The Business rate appeals provisions held at year end is (£4.3m). 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.
Property Plant & Equipment: HRA Assets	1	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority utilised its own internal valuer to provide valuation estimates. We have reviewed the assumptions around these estimates and highlighted a number of unadjusted audit differences and recommendations in relation to the valuation of HRA assets. These are detailed in Appendix 1 and Appendix 3.
Property Plant & Equipment: Non-HRA Assets	1	3	Our work around PPE did not identify any inappropriate asset lives being applied to PPE held. We are therefore satisfied that the asset lives being applied by the Council are reasonable and reflect as closely as possible the expected useful remaining life of assets. We reviewed the assumptions used by the valuer highlighted a number of unadjusted audit differences and recommendations in relation to the valuation of non-HRA assets. These are detailed in Appendix 1 and Appendix 3.
Valuation of Pension Assets and Liabilities	3	3	The Authority continues to use Mercer to provide actuarial valuations in relation to the assets and liabilities recognised as a result of participation in the Local Government Pension Scheme. Due to the overall value of the pension assets and liabilities, small movements in the assumptions can have a significant impact on the overall valuation. The actual assumptions adopted by the actuary fell within our expected ranges as set out below: continues overleaf

Judgements (cont.)

Subjective area	2017-18	2016-17	Commentary
Valuation of pension assets and liabilities (cont.)	3	3	
	2	n/a	

Assumption	Actuary Value	KPMG Value	Assessment
Discount rate	2.60%	2.50%	4
Pension Increase Rate	2.20%	2.16%	3
Salary Increases	1.25% until 31 March 2020, CPI plus 1.25% there after	CPI plus 0% to 2.0%	3
Life expectancy			2
Males currently aged 45 / 65	25.2 / 23.0	23.5 / 22.1	
Females currently aged 45 / 65	28.1 / 25.8	25.4 / 23.9	

We have assessed the level of actual lump sum and benefit payments made to retirees of the Council and their beneficiaries and transfers in/out of the Fund in the year ended 31 March 2018 when compared to equivalent figures provided by the Pension Fund audit team. We noted that there were some immaterial differences in these figures due to estimates being updated by the actuary during and following the pension fund audit process. We are satisfied that the estimates used to reach the figures disclosed in the Council's accounts remain materially correct and based upon reasonable assumptions and would have no impact on the reader's interpretation of the accounts

We also considered the accuracy of the estimated investment returns for the end of 2017/18 and identified an £5.7 million difference in the value of pension assets. This has no impact on the general fund or HRA.

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 2017-18 financial statements following approval of the Statement of Accounts by the Audit Committee on 30 July 2018.

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 this year's audit was set at £11 million. Audit differences below £550k are not considered significant.

Our audit identified a total of four audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. None had an impact on the prime statements of the accounts.

The following will be unadjusted audit differences:

- A school disposed of in the wrong period (would cause a £1.5m increase in general fund)
- An asset revalued at the wrong amount (£2.15m)
- Fixtures and fittings not disposed of when schools convert to academies (NBV £0)
- An increase in schools valuations due to improved valuation methodology (£4.9m)
- A net decrease in the value of fixed asset gross book value as at 31 March 2018 of £6.8m due to consideration of in year valuation changes
- Increase in pension fund asset valuation (£5.7m)

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 2017-18 ('the Code'). We have set out details of significant presentational adjustments in Appendix 3. We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2017-18 Annual Governance Statement and confirmed that it is not misleading and is consistent with other information we are aware of from our audit of the financial statements.

Narrative report

We have reviewed the Authority's 2017-18 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2017/18 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 2018, 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 2017-18 financial statements.

Section three

Value for Money Arrangements

Specific value for money risk areas

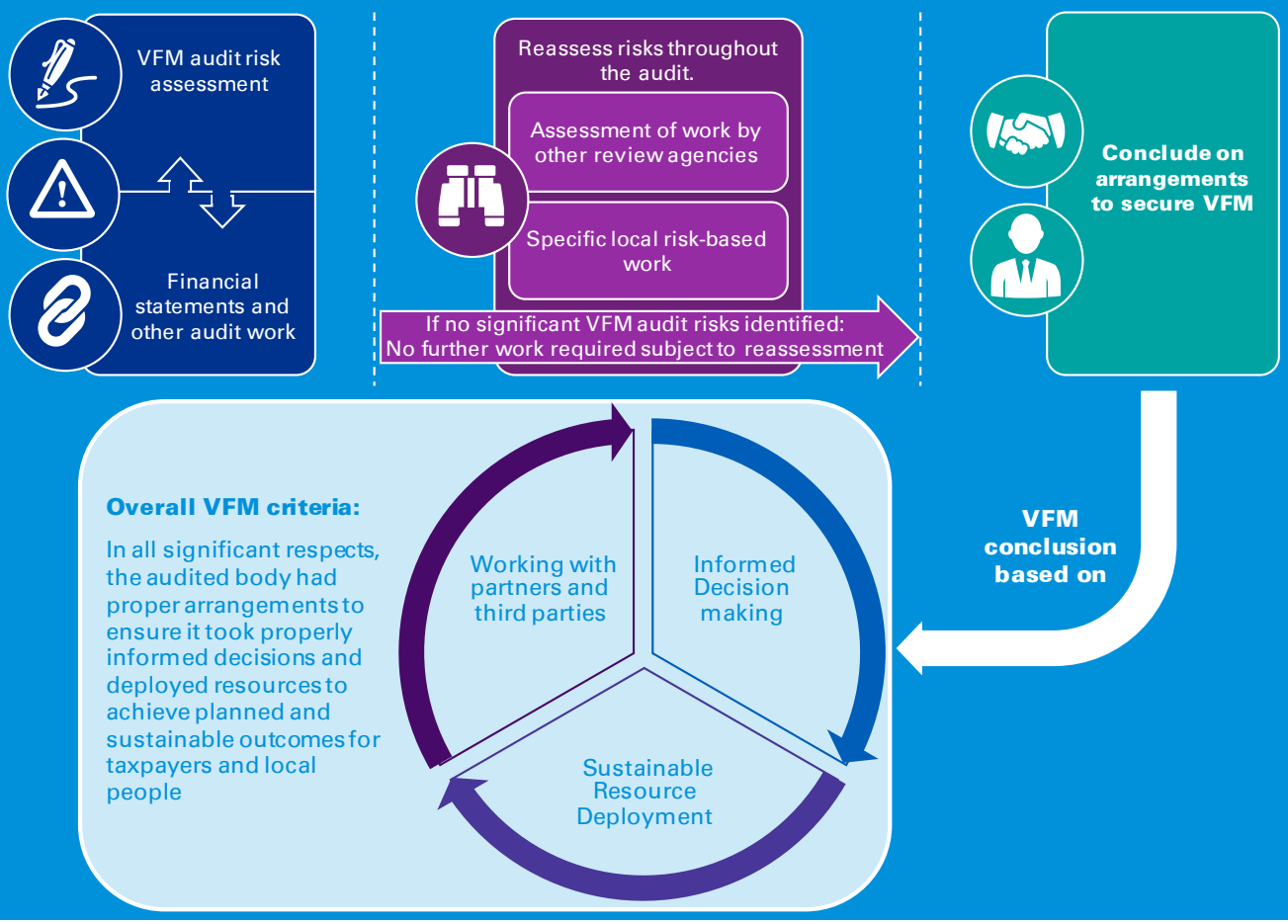
Our 2017-18 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

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.

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.'

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



Specific value for money risk areas (cont.)

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

Applicability of VFM Risks to VFM sub-criteria

VFM Risk	Informed decision making	Sustainable resource deployment	Working with partner and third parties
Financial Sustainability	✔	✔	✔
Delivery of Children's' Services Improvement Plan		✔	

In consideration of the above, we have concluded that in 2017-18, 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.

Specific value for money risk areas (cont.)

As communicated to you in our *External Audit Plan 2017-18* we have identified two risks requiring specific audit attention and procedures to address the likelihood that proper arrangements are not in place to deliver value for money.

In all 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.

We have provided below a summary of the risk areas identified, our work undertaken and the conclusions reached.

Risk:

Financial Sustainability

As documented in our audit plan:

The Authority identified the need to make savings of £24 million in their 2017/18 budget. The current forecast shows that the Authority will deliver an overspend of approximately £4.5 million. This is predominantly due to pressures on Children's Services (£3.987m forecast overspend) caused by increasing numbers of children in care, and Adult Care & Housing (£5.280m forecast overspend) due to a shortfall in delivering the proposed budget savings.

The Authority's budget for 2018/19 is in the process of being approved, but recognises a need for £31 million in savings over 2018/19 and 2019/20. The budget includes individual proposals to support the delivery of the overall savings requirement. It is recognised that further savings will be needed for future years due to reductions in local authority funding alongside service cost and demand pressures. As a result, the need for savings will continue to have a significant impact on the Authority's financial resilience.

Our assessment and work undertaken:

Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for services, particularly around children's services and adult social care.

As part of our additional risk based work, we have reviewed the controls the Authority has in place to ensure financial resilience. Specifically that the Medium Term Financial Plan has duly taken into consideration factors such as funding reductions, salary and general inflation, demand pressures, restructuring costs and sensitivity analysis given the degree of variability in the above factors. We have specifically considered the arrangements in place around savings identified in relation to Adult and Children's Services.

The Authority's MTFP details a balanced budget for 2018/19 including savings of £15.1 million in year, all of which have been identified. However, the MTFP details the increasingly difficult financial challenges faced each year, resulting in the need for ever rising savings which have yet to be identified, up to £30 million by 2020/21. We have reviewed the assumptions around the MTFP, along with considering some of the saving plans for reasonableness and comparing them to supporting information, and they appear reasonable, although the savings plans will be challenging.

Specific value for money risk areas (cont.)

Significant VFM Risks (cont.)

Risk:	**Delivery of Children's Services Improvement Plan** In 2016/17, the Council saw the return of all their statutory powers, apart from those relating to Children's Services, following the commencement of implementing their improvement plan. During 2017/18, work is progressing to deliver this improvement plan, particularly in relation Children's Services. Successful implementation of robust governance arrangements will help improve quality of service. Without this, there could be an increased risk of litigation, poor decision making, and future financial risk.
Our assessment and work undertaken:	We have spoken to key Officers, and reviewed the Council's progress against their action plan. We have considered the results of external reviews, such as those undertaken by OFSTED, and assessed how the Improvement Plan has been considered in relation to financial sustainability and budget setting. The Improvement Plan produced in 2014/15 is now complete, and we are satisfied that actions in the plan have been appropriately completed. The Authority received a "good" rating in its latest OFSTED report, which supports the work the Council have done to improve the service. The next steps for the Authority are to ensure the service continues to be financially sustainable whilst maintaining the good level of service currently provided.

Appendices

Appendix 1:

Key issues and recommendations

Our audit work on the Authority's 2017-18 financial statements has 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 have given each recommendation a risk rating and agreed what action management will need to take.

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. Recommendations Raised: 0	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. Recommendations Raised: 6	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. Recommendations Raised: 2

No.	Risk	Issue & Recommendation	Management Response
1	2	***High level review of valuation of land & buildings*** Rotherham MBC currently revalue their assets on a rolling five year basis in line with the CIPFA code. Within the Guidance Document to the Code, it also states "revaluations must be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using current value at the end of the reporting period". Although there is no requirement to undertake revaluations on an annual basis for all assets, the Code is clear that a Local Authority must satisfy itself that the carrying value of an asset does not differ materially from its current value. From discussions with the internal valuers at Rotherham MBC, although they revalue all land and buildings on a five year rolling basis, they do not explicitly consider the impact of any changes in valuation on other assets in each particular asset subclass. This means that there is a risk that there could be material misstatements in the financial statements where assets have not been revalued for a number of years. ***Recommendation*** The Valuers report should contain clearer detail regarding their consideration of why other assets in a particular asset sub-class are unlikely to have changed in value, compared to audit materiality, when an asset that has been revalued has changed.	Agreed ***Responsible Officer*** Jonathan Marriott – Estates Team Manager ***Implementation Deadline*** 31/03/2019

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
2	2	***Impact of valuations on whole asset classes*** As part of our work on the valuation of fixed assets, we noted that, where there had been changes in assumptions for assets valued in year, for example schools now having their boiler houses separately valued, or increased build costs associated with pavilions, the valuer had not considered the impact of this across the whole asset class. This could lead to an error in the accounts. We estimated the value of schools should increase by £4.9m if all school boilers were separately valued, and the value of pavilions should increase by £0.3m due to increased build costs. ***Recommendation*** Where valuations indicate a change that will affect the whole asset class, the valuer should revalue the whole asset class. All schools where boiler houses have not currently been separately revalued should be revalued in 2018/19. All pavilions that were not revalued in 2017/18 should be revalued in 2018/19.	Agreed ***Responsible Officer*** Jonathan Marriott – Estates Team Manager ***Implementation Deadline*** 31/12/2018
3	2	***Valuation of Fixed Assets to 31 March*** The valuer undertakes their valuations as at 1 April each year, but the balance sheet date is 31 March. Currently, no consideration is given to the movement in value of assets between these dates, particularly council dwellings and those valued under depreciated replacement cost methodology. Due to general fluctuations in house prices and regular increases in build costs, this could lead to a material difference between the valuation as at 1 April, and the value of assets at 31 March. ***Recommendation.*** There are a number of options of how the Council could address this. Potentially the simplest, and the one most commonly seen, is to value the assets as at 31 March, through a combination of in year revaluations and then applying indices between the actual date of valuation and year end. Alternatively, the valuers could continue to value as at 1 April, but then give more detailed consideration to the impact of changing build costs and housing sale prices in year.	Agreed ***Responsible Officer*** Jonathan Marriott – Estates Team Manager ***Implementation Deadline*** 31/12/2018
4	2	***Northgate User Review Frequency*** The review of users of the Northgate (housing benefit) system is currently undertaken on an 8 month rolling cycle. By not promptly reviewing user access rights, the Authority is at greater risk of malicious attack or fraud, especially if a leaver has a grievance with the Authority. ***Recommendation*** The review of user access to the Northgate system should be increased to at least a quarterly control to ensure that all leavers are identified and their access disabled in a timely manner.	Agreed ***Responsible Officer*** Paul Stone – Head of Corporate Finance ***Implementation Deadline*** 31/12/2018

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
5	2	***Northgate Generic Administrator Access*** There is a generic user account for the Northgate system called 'RBUSER' which can be accessed by anyone with the password. There is an action log that records all activities performed by this user. However, this is not reviewed on a periodic basis. There is a risk that staff may make changes to the system that they are not authorised to do. Users with administrator access have the ability to go in and make changes to IT systems without certain checks and authorisations being required that are in place for normal users. This increases the risk that changes could be made either accidentally or deliberately. ***Recommendation*** We recommend reviewing this action log monthly as a detective control to identify any issues.	Agreed ***Responsible Officer*** Paul Stone – Head of Corporate Finance ***Implementation Deadline*** 31/09/2018
6	2	***Northgate Privileged Access Authorisation*** We have determined that there are no formalised procedures specific to Northgate for establishing a new privileged access user. There is a risk that a user is granted inappropriate access to Northgate, which could lead to fraudulent or erroneous activity. When staff have unnecessary privileged access, there is a greater risk that unauthorised changes may be made to the system, either accidentally or deliberately. Staff should be reminded of the importance of appropriately authorising privileged access. Members of the IT team should only grant a user privileged access when there is an approved signatory authorising the access. ***Recommendation*** We recommend that all new privileged access users are appropriately authorised as necessary, including the level of privileges.	Agreed ***Responsible Officer*** Paul Stone – Head of Corporate Finance ***Implementation Deadline*** 31/09/2018

Key issues and recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response
7	3	***Improvements to closedown process*** Following the implementation of the earlier closedown deadline this year, we noted more errors in the financial statements than we have done in recent years. A number of these relate to PPE, for example a school being disposed of in 2017/18 when it was actually disposed of on 1 April 2018. We also identified more presentational adjustments than we have done in previous years. ***Recommendation*** The closedown timetable for 2018/19 should allow more time for a thorough quality review of the accounts. The finance team should work closer with the valuer during the year to identify any PPE valuation issues early. They should also make use of the information on gov.uk which confirms exactly when schools were granted academy status, to confirm it matches with their previously notified dates.	Agreed ***Responsible Officer*** Rob Mahon – Finance Manager – Financial Accounting ***Implementation Deadline*** 31/09/2018
8	3	***Review of fixed asset register for existence of assets*** Since schools started converting to academies, there has been a policy of keeping the fixtures and fittings in the council FAR, but fully depreciating the assets so they have nil net book value. This means that the gross book value is overstated by around £539k. ***Recommendation*** Although no audit adjustment has been put through the accounts this year, we recommend for 2018/19 an exercise is undertaken to understand which assets in plant, vehicles & equipment the Council still owns and which should be written out of the accounts.	Agreed ***Responsible Officer*** Rob Mahon – Finance Manager – Financial Accounting ***Implementation Deadline*** 31/12/2018

Appendix 2:

Follow-up of prior year recommendations

The Authority has implemented the majority of the recommendations raised through our previous audit work.

This appendix summarises the progress made to implement the recommendations identified in our *Interim Audit Report 2016/17* and *ISA 260 Report 2016/17* and re-iterates any recommendations still outstanding.

Number of recommendations that were	
Included in the original report	5
Implemented in year or superseded	5
Outstanding at the time of our interim audit	0

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
1	2	***Preparation for early close*** The Authority will need to consider how they meet the requirements of early close in 2017/18. 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. ***Recommendation*** We will work with the Council throughout the year to plan the close down to support the Council in meeting the deadlines required.	Accepted ***Responsible Officer*** Graham Saxton ***Implementation Deadline*** 31/12/17	Although we have raised a minor recommendation in relation to faster close in 2017/18, the finance team has worked hard to meet all statutory deadlines.
2	2	***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. *Continued overleaf...*	Accepted ***Responsible Officer*** Richard Douthwaite ***Implementation Deadline*** 31/10/2017	We did not identify any issues as a result of our 2017/18 audit work.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
2	2	***Appropriate IT authorisation for new starters (cont.)*** Although we subsequently obtained evidence that both users were appropriate, this represents a control weakness in the process. There is a risk that a user is granted inappropriate access to the general ledger, which could lead to fraudulent or erroneous postings. ***Recommendation*** 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.		
3	2	***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. 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. ***Recommendation*** 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. 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.	Accepted ***Responsible Officer*** Richard Douthwaite ***Implementation Deadline*** 31/10/2017	We did not identify any issues as a result of our 2017/18 audit work.

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
4	3	***Segregation of duty in journals processing*** 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.	Accepted ***Responsible Officer*** Graham Saxton ***Implementation Deadline*** 31/03/2018	We did not identify any issues as a result of our testing.
5	2	***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. *Continued overleaf…*	Accepted ***Responsible Officer*** Mick Wildman ***Implementation Deadline*** 31/10/2017	We did not identify any issues as a result of our 2017/18 testing.

Appendix 2:

Follow-up of prior year recommendations (cont.)

No.	Risk	Issue & Recommendation	Management Response	Status as at July 2018
5	2	***School Bank Account Reconciliations (cont.)*** ***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		

Appendix 3:

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 2017-18 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

The following table sets out the significant audit differences identified by our audit of Rotherham Metropolitan Borough Council's financial statements for the year ended 31 March 2018. It is our understanding that these will be adjusted. However, we have not yet received a revised set of financial statements to confirm this.

We did not identify any adjusted audit differences which impact on the prime financial statements.

The following adjustments have been made which do not impact the prime financial statements:

- Note 14: Exit Packages – The number of other departures for non-schools was overstated by 2 staff members
- Note 14: Senior Officer Remuneration – The salary for the Head of Communication and Marketing was understated by £498.
- Note 15: Audit Fees – Non-audit work in relation to demand and service area consumption, with a value of £16,500 had been missed from the non-audit services line in the audit fee note.
- Note 49: Material Items of Income & Expenditure – the loss on disposal of non-current assets was incorrectly stated as £41.149m rather than £42.055m as per note 4

We also identified a small number of minor presentational errors, such as prior year balances not being updated in one note, and a number of typographical errors. These will all be amended in the final set of financial statements.

Appendix 3:

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.

Unadjusted audit differences

The following table sets out the uncorrected audit differences identified by our audit of Rotherham Metropolitan Borough Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £11m. Cumulatively, the impact of these uncorrected audit differences is to increase the general fund by £1.5m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
1	CR Loss on Disposal (1,507)	DR General Fund 1,507	DR PPE 1,507		CR CAA (1,507)	A school was thought to have converted to an academy prior to year end so was disposed of in the accounts. When all academy conversions were reviewed, it converted at 1 April 2018, so should have been in the accounts at year end. No other academies had been accounted for incorrectly
2			DR PPE 2,157		CR reval reserve (2,157)	The valuer had provided the finance team with the wrong valuation for one asset.
3	DR Loss on Disposal 0		CR PPE 0			Fixtures and fittings not fully removed from asset register when a school converts to academy status (net impact is nil, but gross book value is £539k)
4			Dr PPE 4,905		CR reval reserve (4,905)	Schools revalued in year had increased in value due to more accurate measurement of land area and separately revaluing boiler houses as these have a higher build cost than general school buildings. To assess the impact of this across the whole of the schools asset base, an estimate of the likely increase in value has been calculated based on a number of broad assumptions, such as the expected % increase in valuation for each year the asset hasn't been revalued. The figure shown here is at the top end of likely difference
5			CR PPE (2,949)		DR reval reserve 2,949	Only 20% of council dwellings are revalued in year, with the 80% using previous valuations as their base. As such, the valuation of the 80% not revalued in year does not fully reflect the expected valuation based on the movement in the other 20%.
6			CR PPE (1,699)		DR reval reserve 1,699	School assets are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated replacement costs of the assets.

Continued overleaf

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.

Unadjusted audit differences (continued)

The following table sets out the uncorrected audit differences identified by our audit of Rotherham Metropolitan Borough Council's financial statements for the year ended 31 March 2018. These differences are individually below our materiality level of £11m. Cumulatively, the impact of these uncorrected audit differences is to increase the general fund by £1.5m. We have also considered the cumulative impact of these unadjusted audit differences on the Authority's financial statements in forming our audit opinion.

Table 2: Unadjusted audit differences (£'000)

No.	Income and expenditure statement	Movement in reserves statement	Assets	Liabilities	Reserves	Basis of audit difference
7			DR PPE 2,337		CR reval reserve (2,337)	Land and Buildings are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Build costs have changed in year, which would impact the overall depreciated replacement costs of the assets.
8			DR PPE 2,301		CR Reval reserve (2,301)	Council Dwellings are revalued as at 1 April each year, and insufficient consideration had been given to the possible in year changes in value. Property prices have changed in year, which would impact the overall value of council properties held by the Authority.
	CR (1,507)	**DR 1,507**	**DR 8,559**	**0**	**CR (8,559)**	**Total impact of adjustments**

NB. As a number of the above differences are subject to estimation uncertainty we have not required audit adjustments to be made, despite the total impact on fixed assets nearing our materiality level of £11m.

As well as the above unadjusted audit differences, we identified an unadjusted audit difference of £5.7m in relation to the pension assets. This variance is due to the actuary having to use estimates to provide their valuation in time for the draft accounts, but the actual figures being available by the time we complete our audit.

Appendix 4:

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 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 2017-18*, presented to you in February 2018.

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, an individual difference is 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.

Appendix 5:

Required communications with the Audit Committee

We have provided below at-a-glance summary of the information we are required to report to you in writing by International Accounting Standards.

Required Communication	Commentary
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 December 2018.
Adjusted audit differences	We have identified four adjusted audit differences. See Appendix 3 for details. These adjustments have no impact on the reported deficit on provision of services.
Unadjusted audit differences	The net impact of unadjusted audit differences on the deficit on provision of services would be an increase of £1.5m. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See Appendix 3 for further details.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We have set out our assessment of the Authority's internal control environment, including details of deficiencies identified, in Section one and Appendix One of this report.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	We identified no actual or suspected fraud involving the Authority's Member or Officers with significant roles in internal control, or where the fraud resulted in a material misstatement in the financial statements.
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	There are no modifications to our audit report.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the Narrative Report or Annual Governance Statement. These reports were found to be fair, balanced and comprehensive, and compliant with applicable requirements.
Our declaration of independence and any breaches of independence	No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence. See Appendix 6 for further details.

Appendix 5:

Required communications with the Audit Committee (cont.)

Required Communication	Commentary
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Authority's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. We have set out our view of the assumptions used in valuing pension assets and liabilities at page 15.
Significant matters discussed or subject to correspondence with management	There were no significant matters arising from the audit were discussed, or subject to correspondence, with management.

Appendix 6:

Declaration of independence

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OF ROTHERHAM METROPOLITAN BOROUGH COUNCIL

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Limited's ('PSAA's') Terms of Appointment relating to independence, the requirements of the FRC Ethical Standard and the requirements of Auditor Guidance Note 1 - General Guidance Supporting Local Audit (AGN01) issued by the National Audit Office ('NAO') on behalf of the Comptroller and Auditor General.

This Statement is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

— General procedures to safeguard independence and objectivity;

— Independence and objectivity considerations relating to the provision of non-audit services; and

— Independence and objectivity considerations relating to other matters.

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 partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

— Instilling professional values

— Communications

— Internal accountability

— Risk management

— Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Declaration of independence (cont.)

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the authority for professional services provided by us during the reporting period. We have detailed the fees charged by us to the authority for significant professional services provided by us during the reporting period in Appendix 7, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 March 2018 can be analysed as follows:

	2017-18 £	2016-17 £
Audit of the Authority	140,828	144,028
Total audit services	**140,828**	**144,028**
Audit related assurance services	0	5,780
Mandatory assurance services	15,826	15,826
Other services	16,500	0
Total Non Audit Services	**32,326**	**21,606**

We are also in the process of agreeing the fees for the 2017/18 Teachers Pension Audit and Pooling of Housing Capital Receipt Audit.

We are required by AGN 01 to limit the proportion of fees charged for non-audit services (excluding mandatory assurance services) to 70% of the total fee for all audit work carried out in respect of the Authority under the Code of Audit Practice for the year. The ratio of non-audit fees to audit fees for the year was 0.23:1. We do not consider that the total of non-audit fees creates a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out table on the following page.

Declaration of independence (cont.)

Analysis of Non-audit services for the year ended 31 March 2018

Description of scope of services	Principal threats to independence and Safeguards applied	Basis of fee	Value of services delivered in the year ended 31 March 2018 £	Value of services committed but not yet delivered £
Audit-related assurance services				
Grant Certification – Teachers Pensions Return and Pooling of Housing Capital Receipts Return	The nature of these audit-related services is to provide independent assurance on each of these returns. As such we do not consider them to create any independence threats. We have considered the following threats to independence and have concluded there are none that apply to this audit: - Self interest - Assumption of management responsibility - Self review - Familiarity - Advocacy - Intimidation	Fixed Fee	0	0
			The fee for this work is yet to be agreed as we are awaiting details of the scope of the work from the relevant body.	
Mandatory assurance services				
Grant Certification – Housing Benefit Subsidy Return	The nature of this mandatory assurance service is to provide independent assurance on each of the returns. As such we do not consider it to create any independence threats. As part of the PSAA contract, we are required to undertake the housing benefits audit work. As such appropriate safeguards have been applied by PSAA.	Fixed Fee	2,000	13,826
Non-Audit Work				
Work undertaken to support RMBC's understanding of their patterns of demand and service area consumption.	We have considered the following threats to independence and have concluded there are none that apply to this audit: - Self interest - Assumption of management responsibility - Self review - Familiarity - Advocacy - Intimidation	Fixed Fee	£16,500	0

Declaration of independence (cont.)

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

KPMG LLP

KPMG LLP

Appendix 7:

Audit fees

As communicated to you in our *External Audit Plan 2017-18*, our scale fee for the audit is £140,828 plus VAT (£144,028 in 2016/17), which is a reduction of 2% from the prior year. The prior year audit fee included an agreed uplift for additional work undertaken in relation to VFM.

Our work on the certification of the Authority's Housing Benefit Subsidy return is not yet complete. The planned scale fee for this is £15,826 plus VAT (£15,826 in 2016/17). Planned fees for other grants and claims which do not fall under the PSAA arrangements have not yet been agreed for 2017/18 (£5,780 in 2016/17), see further details below.

Component of the audit	2017-18 Planned Fee £	2016-17 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Rotherham Metropolitan Borough Council)	140,828	144,028
Total audit services	**140,828**	**144,028**
Mandatory assurance services		
Housing Benefits Certification (work planned for August / September)	15,826	15,826
Total mandatory assurance services	**15,826**	**15,826**
Audit-related assurance services		
Teachers' Pension Return (work planned for August)	3,280 (estimated)	3,280
Pooling of Housing Capital Receipts (work planned for August)	2,500 (estimated)	2,500
Total audit-related assurance services	**5,780 (estimated)**	**5,780**
Other non audit services		
Demand and Service Area Consumption Work	**16,500**	**0**
Total other non-audit services	**16,600**	**0**
Total non-audit services	**38,106**	**21,606**
Grand total fees for the Authority	**178,934**	**165,634**

All fees quoted are exclusive of VAT.

The key contacts in relation to our audit are:

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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. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psaa.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, 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 PSAA'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 3HZ.

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