Grant Thornton

The Audit Findings (ISA260) Report for Rotherham Metropolitan Borough Council

Year ended 31 March 2019

25 July 2019

Contents

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rotherham Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements: • give a true and fair view of the financial position of the Council's income and expenditure for the year • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014. We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.	Our audit work commenced as planned at the beginning of June and, at the time of this report, remains ongoing. Our key audit findings are summarised in this report. Based on our audit work to date, we have not identified any adjustments that impact on the useable reserves of the Council, however, we have identified one adjustment affecting the Council's primary statements relating to pension liabilities resulting from the post year-end national McCloud judgement and the associated Guaranteed Minimum Pension indexation, the total adjustment is expected to amount to an increase in the pension liability of c£15m. We have identified some presentation amendments to the accounts which have been processed by management and these are listed at Appendix B. We have also raised a small number of recommendations for management as a result of our audit work in the Action Plan at Appendix A. Our work is currently progressing and, at this stage, there are no matters of which we are aware that would require modification of our proposed audit opinion (as set out at Appendix D), subject to the following outstanding matters: • finalisation of a testing and review of the work done by the engagement lead and manager in the following sections; • elements of testing on property, plant and equipment, finishing substantive testing of income streams and operating expenditure, work on the Housing Revenue Account and Collection Fund, completion of audit testing on debtors, creditors and reserves • final review of the updated pension fund liability and related disclosures in light of the changes required following the McCloud judgement and Guaranteed Minimum Pension (GMP) requirements • completion of work on disclosures in respect of related party transactions and PFI schemes • completion of our audit work on some notes to the accounts not included above in line with our audit approach • receipt of management's letter of representation (included as a separate item on the Audit Committee's agenda for 30 July) • review of the final set of financial statements. We have concluded that the other information to be published with the financial statements is consistent with our knowledge of your organisation and the financial statements we have audited, subject to satisfactory completion of our review of the Narrative Report and AGS. Subject to satisfactory completion of our audit work, we expect to issue an unqualified (clean) audit opinion by 31 July 2019.

Headlines - continued

Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources . We therefore anticipate issuing an unqualified 'clean' value for money conclusion, as detailed at Appendix D. As part of our VFM work, we have noted the material deficit (of £15.1m) on the Council's Dedicated Schools Grant (DSG) reserve. We have raised a recommendation in relation to monitoring of the Council's recovery plan following the significant increase of c£10m noted in the deficit over the past two years. Should the deficit continue to increase in 2019-20 this may have implications for our 2019-20 VFM conclusion. Our findings in relation to our VFM review are summarised in section 3 of this report.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • To certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of work under the Code. We expect to be able to certify the conclusion of the audit once we have completed our review of the Council's Whole of Government Accounts (WGA) return. We anticipate issuing our audit certificate by the NAO's WGA deadline of 31 August 2019.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

2. Summary

Overview of the scope of our audit

- This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management prior to reporting to the Audit Committee.
- As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- An evaluation of the Council's internal controls environment, including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our Audit Plan, as communicated to you on 29 January 2019

Conclusion

Our audit work on your financial statements is currently ongoing. Subject to outstanding work and queries being satisfactorily completed and resolved (previously listed on page 3 of this report), we anticipate issuing an unqualified audit opinion following the Audit Committee on 30 July 2019, as detailed at Appendix D.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations remain the same as reported in our Audit Plan in January 2019. Our determination of materiality is detailed below.

Materiality category	Planned and Final	Qualitative factors considered
Materiality for the financial statements	£10,500,000	We have determined materiality at 1.8% of gross expenditure from the 2018-19 draft accounts. This is in line with the industry standard and reflects the risks associated with the Council's operational environment.
Performance materiality	£7,400,000	This is 70% of materiality and reflects any significant findings from the work of the previous external auditor and 2018-19 is the first year of audit for us as external auditors.
Trivial matters	£525,000	A standard level of five per cent of materiality has been used. This is our reporting threshold for any errors identified.
Materiality for specific transactions, balances or disclosures	£5,000	The senior officer remuneration disclosure has been identified as an area requiring specific materiality of £5,000 based on the disclosure bandings, due to its sensitive nature.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
1	**The revenue cycle includes fraudulent transactions**	**Auditor commentary** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA (UK) 240 and the nature of the revenue streams at the Council, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including the Council, mean that all forms of fraud are seen as unacceptable. We did not consider this to be a significant risk for the Council in our Audit Plan. Therefore we did not undertake any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income. Our audit work has not identified any issues in respect of fraudulent revenue recognition.
2	**Management override of controls**	**Auditor commentary** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council continues to face financial pressures and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement. As part of our audit, we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions Our audit work has not identified any issues in respect of management override of controls. We are currently working through the journals selected for testing, we will provide a verbal update the Audit Committee on 30 July with our final findings on our review of journals.

Significant findings – audit risks

	Risks identified in our Audit Plan (January 2019)	Commentary
3	**Valuation of the pension fund net liability** The Council's pension fund net liability, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (c£372m in the Council's prior year balance sheet) and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	**Auditor commentary** As a response to this risk, our audit work included but was not restricted to: • updating our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluating the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessing the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessing the accuracy and completeness of the information provided to the actuary to estimate the liabilities • testing the consistency of the pension fund assets and liabilities and disclosures in the notes to the core financial statements with the actuarial reports from the actuary • undertaking procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtaining assurances from the auditor of South Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements [note: currently awaiting confirmation of from the SYPF auditor, expected by 26 July 2019]. **Key observations** Subject to satisfactory receipt of assurances from the auditor of the Pension Fund, we have reviewed this estimate and are satisfied that it is reasonable. Key assumptions have also been reviewed and agreed as reasonable. In the 'significant findings – other issues' on page 9 we set out the potential impact of the post year-end national McCloud judgement on the pension fund net liability. At the time of producing this report, we have been in discussions with management. The Council has requested and now received the updated reports from its actuary to take into account the impact on the Council's pension numbers of the McCloud judgement and GMP. We understand the expected impact of these issues would result in a suggested increase of the Authority's c£444.3m pension fund liability by c£15m, which is above the materiality figure. We will review the updated actuary reports and resulting changes to the pension figures in the accounts once received. We will verbally update the Committee on 30 July with our findings on this issue.

Significant findings – audit risks

	Risks identified in our Audit Plan	Commentary
4	**Valuation of land and buildings** The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (PY: £894m) and the sensitivity of this estimate to changes in key assumptions. Additionally, the Council needs to ensure the carrying value of land and buildings in the Council's financial statements is not materially different from the current value or the fair value at the financial statements date, where a rolling programme is used We therefore identified valuation of land and buildings, particularly revaluations and impairments, as a significant risk, which was one of the most significant assessed risks of material misstatement	**Auditor commentary** As a response to this risk, our audit work included but was not restricted to • evaluating management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluating the competence, capabilities and objectivity of the valuation expert • discussing with the valuer the basis on which the valuation was carried out • challenging the information and assumptions used by the valuer to assess completeness and consistency with our understanding • testing revaluations made during the year to see if they had been accounted correctly in line with applicable accounting guidance and input correctly into the Council's asset register • assessing how management have confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019 • evaluating the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • reviewing the Council's PFI schemes to consider the appropriateness of the accounting entries. Our work did not identify any significant issues. We did identify some presentational changes that have been updated by the management and they are reported at Appendix B.

Significant findings - other issues

Issue	Commentary	Auditor view
Potential impact of the post year-end national McCloud judgement : The Court of Appeal has ruled that there was age discrimination in the judges and firefighters pension schemes where transitional protections were given to scheme members. The Government applied to the Supreme Court for permission to appeal this ruling, but this permission to appeal was unsuccessful on 27 June 2019. The case will now be remitted back to employment tribunal for remedy. The legal ruling around age discrimination (McCloud - Court of Appeal) has implications not just for pension funds but also for other pension schemes where they have implemented transitional arrangements on changing benefits.	Discussion is ongoing in the sector regarding the potential impact of the ruling on the financial statements of Local Government bodies. The Council has requested an estimate from its actuary of the potential impact of the McCloud ruling and GMP. The actuary's estimate suggested a potential impact of these issues would result in an increase of the Council's c£444.3m pension fund liability by c£15.4m. The Council then requested that it's actuary carry out a detailed review of the impact of this issue. The detailed analysis has confirmed the impact is an increase in the pension liability by c£15.4m. We will perform a final review of the updated actuary reports and resulting changes to the pension figures in the accounts. We will verbally update the Committee on 30 July with our findings on this issue. Management's view is that the impact of this change is material and therefore updating the accounts for this issue is appropriate.	We have reviewed the analysis performed by the actuary, and consider that the approach that has been taken to arrive at this estimate is reasonable. Given the change in liability resulting from the McCloud judgement, management has agreed to process the adjustment of c15.4m. We consider this an appropriate adjustment to the Council's financial statements as it is above the materiality threshold. We have included this as an adjusted item at Appendix B.

Significant findings – key judgements and estimates

Accounting area	Summary of management's policy	Audit Comments	Assessment
Land and Buildings – Council Housing - £638.7m	The Council owns 20,296 dwellings and is required to revalue these properties in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged it's internally RICS qualified valuers from its' Estate Department to complete the valuation of these properties. The year end valuation of all Council Housing was £638.7m, a net increase of £20.6m from 2017-18 (£618.1m).	As part of our audit , we performed the following procedures to ensure the estimates used and key judgements applied when valuing the Council Housing stock and other land and buildings are prudent and reasonable, including: • Assessment of management's expert (the Council's RICS qualified valuers) • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method as relevant. There were no significant changes to the valuation method. • Consistency of estimate used • Reasonableness of the movement in the estimate. • Adequacy of disclosure of estimate in the financial statements.	Green
Land and Buildings – Other - £266.4m	Other land and buildings comprises specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings are not specialised in nature and are required to be valued at existing use in value (EUV) at year end. The Council has engaged it's internally RICS qualified valuers from its' Estate Department to complete the valuation of these properties on a five yearly cyclical basis. Management has considered the year-end value of non-valued properties, and the potential valuation change in the assets revalued at 1 April 2018 comparing the potential changes at the date of valuation and the year end of 31 March 2019 to determine whether there has been a material change in the total value of these properties. Management's assessment of assets not revalued in year and asset revalued during the year has identified no material change to the properties current value compared to it's carrying value as at 31 March 2019.		

Assessment

- We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key judgements and estimates

	Summary of management's policy	Audit Comments	Assessment
Net pension liability: **£444.3m** [Before McCloud judgement impact adjustment]	The Council's total net pension liability at 31 March 2019 is £444.3m (PY £371.6m) comprising the South Yorkshire Local Government and unfunded defined benefit pension scheme obligations. The Council uses Mercer, an actuarial firm, to provide actuarial valuations of the Council and group's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed in 2016-17. A roll forward approach is used in intervening periods, which utilises key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £72.7m net increase in the Council's pension fund liability in 2018-19.	As part of our audit , we performed the following procedures to ensure the estimates used and key judgements applied when valuing the Council's pension liability were prudent and reasonable: • Assessment of management's expert (for the Council this is Mercer) • Assessment of actuary's roll forward approach taken, detail work undertaken to confirm reasonableness of approach • Use of PwC as auditor's expert to assess the actuary's assumptions – see table below for comparison with Actuary assumptions	● Green

Assumption	Actuary Value	PwC range	Assessment
Discount rate	2.4% -2.5% for most employers	We are comfortable that the methodologies used to establish discount rate will produce a reasonable assumption at 31 March 2019.	● Green
Pension increase rate	Dependent on duration (2.3%-2.20%for most employers	We are comfortable that the methodologies used to establish pension increase rate will produce a reasonable assumption at 31 March 2019.	● Green
Salary growth	Scheme and employer Specific	We are comfortable that the methodologies used to establish salary growth will produce a reasonable assumption at 31 March 2019.	● Green
Life expectancy – Males currently aged 45 in 20 years time	25.3	We are comfortable that the methodologies used to establish life expectancy will produce a reasonable assumption at 31 March 2019.	● Green
Life expectancy – Females currently aged 45 in 20 years time	28.3	We are comfortable that the methodologies used to establish life will produce reasonable a assumption at 31 March 2019.	● Green

- Impact of any changes to valuation method
- Reasonableness of the Council's share of LGPS pension assets
- Reasonableness of the movement in the estimate
- Quantifying the impact of the McCloud judgement and GMP on the Council's pension fund balance (note work still in progress on this matter at the date of this report)
- Adequacy of disclosure of estimate in the financial statements.
- Completeness and accuracy of the underlying information used to determine the estimate

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process

- Final outturn for year ending 31 March 2019
- Approved Budget 2019-20
- Medium Term Financial Strategy (MTFS) 2019-20 to 2021-22 and assumptions
- Efficiency savings target 2019-20
- Efficiency savings proposals 2019-20 and 2020-21
- The robustness of the Budget and recommended level of reserves
- Reserves Strategy 2019-20 onwards
- Assessment of going concern basis paper provided by management for 2018-19

Auditor commentary

Management produced a going concern assessment report as part of their 2018-19 accounts preparation procedures. It is recognised good practice for local authorities to perform an appropriate going concern review. The review covered the guidance from the CIPFA Code 2018-19 on the going concern concept.

In the vast majority of cases, local authorities shall prepare their financial statements on a going concern basis of accounting; that is, the financial statements shall be prepared on the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The Council's going concern report included the Council's thought process in relation to going concern principles and how that specifically applies to the circumstances in place at the Council.

The paper included the following key points:

- the MTFS approved in February 2019 and the 2019-20 balanced budget whilst highlighting the strategy to deal with savings requirement to balance the budgets in 2019-20 and 2020-21
- the revised reserves policy which highlights reserves no longer required of £5.543m to the Council's minimum balance and retains a number of smaller reserves which can be used more flexibly if and required
- identification and approval of savings plans for 2019-20 (of £7.7m) and 2020-21 (of £15.8m) which has been validated by independent specialists. The detail savings were approved in February 2019 by the full Council.

Work performed

We performed work on the MTFS, held meetings with senior management to discuss the MTFS, budget setting and savings plans.

Auditor commentary

- Our work indicates that there are no material uncertainties in terms of the going concern assessment by the management and no further disclosures are considered necessary in the Financial Statements.
- We have also carried out further work as part of our Value for Money Conclusion in relation to sustainable resource deployment – see page 17.

Concluding comments

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director - Finance and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director - Finance and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We are satisfied with management's assessment that the going concern basis is appropriate for the 2018-19 financial statements.

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	• We have previously discussed the risk of fraud with the Head of Internal Audit and noted his updates to the Audit Committee. We have not been made aware of any material incidents in the period and no other issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	• Based on our review of related party transactions to date, we are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	• A letter of representation has been requested from the Council and will be included as a separate agenda item at the Audit Committee on 30 July 2019.
5	**Confirmation requests from third parties**	• We requested from management permission to send confirmation requests to the Council's bank, loans and investments counterparties. • The majority of these requests were returned with positive confirmations, however, when requests were not received, we carried out appropriate alternative procedures by observing and obtaining copies of online banks statements to confirm the balances as at 31 March 2019.
6	**Disclosures**	• We have identified some disclosure amendments to assist in the understanding of the financial statements. These are included at Appendix B.
7	**Significant difficulties**	• We did not identify any significant difficulties with management or working papers during the course of our audit.

Other responsibilities under the Code

We set out below details of other matters which we, as auditors, are required by the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Other information**	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our review of the AGS identified a small number of areas for enhanced disclosure. The Council has accepted our findings on the AGS and a revised version is due to be presented to the Audit Committee on 30 July. Our review of the Narrative Report also identified some areas for enhanced disclosure. The Council has agreed to update its Narrative Report to take into account our comments. Subject to satisfactory receipt and review of the revised AGS and Narrative Report taking into account our comments, we plan to issue an unmodified opinion in this respect – please see our proposed audit opinion at Appendix D.
2	**Matters on which we report by exception**	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties We have nothing to report on these matters.
3	**Specified procedures for Whole of Government Accounts**	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. The deadline for the WGA consolidation audit is 31 August 2019 and we plan to complete our audit work and report by the deadline.
4	**Certification of the closure of the audit**	As a result of the ongoing WGA work, we do not expect to be able to certify the completion of the 2018-19 audit of the Council in our auditor's report, as detailed in Appendix D. This is in common with a number of local authorities (and what occurred at the Council in 2017-18), where certification on closure of the audit takes place following completion of the WGA review in August.

3. Value for Money

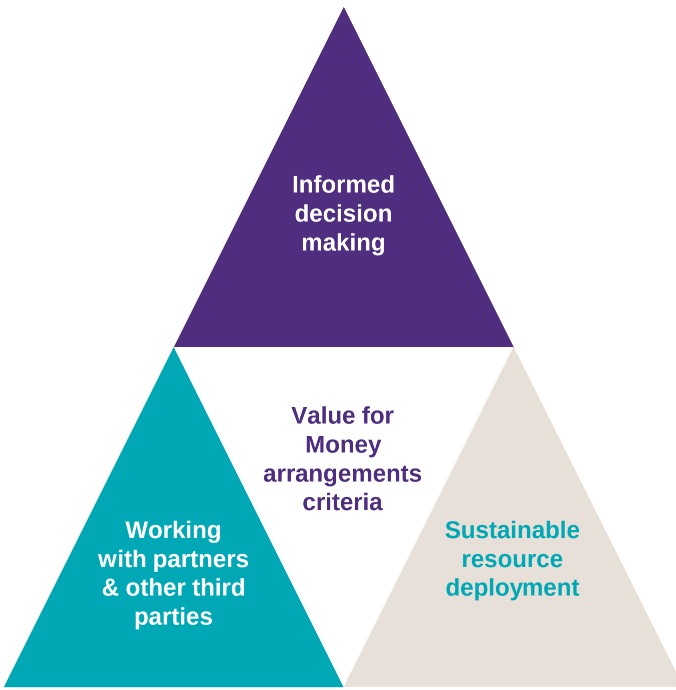
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in November 2017. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2019 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these two risks to you in our Audit Plan in January 2019

We have continued our risk assessment procedures up to the date of giving our audit report and have identified one additional significant risk where we have performed further work.

Additional Significant Risk – DSG Deficit position and recovery plan

We received Council's draft accounts for audit on 31 May 2019. Our review of the accounts highlighted that Dedicated School Grant (DSG) reserve was in material deficit of £15.1m as at 31 March 2019. The overall increase was £5.4m during the 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m. Therefore, in a two year period, the DSG deficit has increased by c10m.

This is a significant increase in the DSG deficit position at a time when the Council is in a challenging financial environment. The DSG deficit position adds additional pressure on Council's financial position and general fund reserves going forward.

As a result, we considered this as an additional significant risk for our Value for Money Conclusion work in 2018-19.

Work performed

We carried out work only in respect of the three significant risks we identified from our initial and ongoing risk assessment.

Where our consideration of the significant risks determined that arrangements were not operating effectively, we have used the examples of proper arrangements from AGN 03 to explain the gaps in proper arrangements that we have reported in our VFM conclusion.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the three significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

- Financial standing – delivery of 2018-19 budget, savings plan and achievement of Medium Term Financial Strategy (MTFS)
- Regulatory oversight of Children's Services
- DSG reserve deficit position and recovery plan.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 17 to 19.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix D.

Recommendations for improvement

We discussed findings arising from our work with management and have agreed recommendations as set out in the Action Plan at Appendix A along with management's responses.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Significant risk reported in the Audit Plan	Findings	Conclusion
1 **Financial standing – delivery of 2018-19 budget and savings plan and achievement of Medium Term Financial Strategy (MTFS)** The Council, in line with other local authorities, continues to operate under significant financial pressures. The Council's latest revenue position published at end of month 6 highlights further actions are required to reduce forecast expenditure by £3.1m in order to deliver a balanced budget at month12. Our latest discussions with management indicate this has now reduced by £2m by December 2018, leaving an amount of c£1m to be managed to result in a balanced budget outturn position by the year-end. The MTFS notes the requirement for additional savings in the next two years of £15.8m (2019-20) and £13.9m (2020-21) which need to be delivered in order achieve a balanced budget. We are aware that a two year balanced budget is currently being compiled by the Council and will be published shortly. We will continue to monitor the Council's financial position through regular meetings with senior management and consider how the Council manages its budget. We will continue to consider progress in the identification and delivery of the future savings required as identified in the current MTFS.	• The Council's final outturn position for 2018-19 was a balanced position. The 2018-19 budget proposed a planned use of corporate reserves of £5.2m as part of a budget contingency of £10m. However, the balanced position was achieved by requiring the use of £2m reserves despite the significant financial and operational pressures the Council was under. • There was an overall overspend against the approved 2018-19 budget (£216.9m) which was £9.6m. The key services that encountered overspend were adult social care (£15.6m) and children's services (£4.6m). This was mitigated by underspends on central services (£4.8m), budget contingency (£4.8m) and other (£1m) . The actions taken to mitigate the £9.6m overspend included the use of Directorate balances (£3.9m), in year use of flexible capital receipts (£1.1m), approved education PFI reserves (£1.4m), use of budget contingency reserves (£2m) and other budgetary decisions (£1.2m). The Council also achieved its savings targets of £21.7m for 2018-19. • The Council agreed a balanced budget for 2019-20 in February 2019. There is a £15.8m budget gap before savings (£7.7m) and other adjustments (£8.1m). The Council has a financial management and monitoring system in place to oversee saving plan delivery and reporting. The Council, in line with most in the local authority sector, will continue with increasing financial pressures in adult social care, children's services and reduced government funding, highlighting the challenge of maintaining financial resilience. • The Council's MTFS was updated and approved in February 2019 covering the 3 years from 2019-20 to 2021-22. For 2020-21, there are proposals to bridge a £13.9m funding gap including savings plans. For 2021-22, the Council currently does not envisage any budget gap or new savings requirement. • This further highlights the challenging financial environment the Council operates. It has to be noted that the Comprehensive Spending Review, Fair Funding Review and outcome of Business Rates Retention have been delayed. This delay has not been conducive to the Council's (or other public sector bodies) ability to financial plan for the medium term. • As reported to the full council in February 2019, the Council has undertaken a review of all its General Fund Reserves and the commitments and liabilities against them. This review has established that some of the reserves are no longer needed for the purpose that they were originally established. Taking into account the achievement of proposed balanced budget for 2019-20 , 2020-21 and savings plans, the reserves strategy estimates the Council will have £30.9m and £33.1m general fund reserves at the end of 2019-20 and 2020-21 respectively, excluding the DSG deficit reserve discussed further on page 19 (this position has improved by £3.2m as a result of 2018-19 outturn). The Council acknowledges that delivering these targets under the current and future financial and operational climate is a significant challenge. • We have considered the Council's arrangements to ensure it is financially resilient to deal with budgetary pressures and, overall, we are satisfied proper arrangements were in place for the delivery of 2018-19 budget and savings plans.	We concluded that the Council has proper arrangements in place for ensuring sustainable resource deployment.

Significant risk reported in the Audit Plan	Findings	Conclusion
2 **Regulatory oversight of Children's Services** The Council has invested significantly in its Children's Services since the Jay report publication in August 2014 from a workforce and financial perspective. The Council's commitment to improving its Children's Services received a positive endorsement when the regulator, Ofsted, awarded the Council a rating of 'good' for its Children's Services in January 2018. In addition the government-appointed commissioners, in place at the Council since 2015, formally handed back control of Council decision making to Members in September 2018. We are aware that the Council has requested the commissioners to perform a review of Children's Services which is expected to report by 31 March 2019. This review is expected to give an indication as to whether the quality of services has been maintained since the commissioners handed back control. We will monitor and consider external inspections and related reports on Children's Services at the Council as part of our VFM work.	Our findings were as follows: • As part of establishing the overall progress made by the Council in Children's Services, an independent Health Check was carried out in February and March 2018. The results of the Health Check was published in June 2018. The Health Check reported that, the speed and extent of the improvements delivered since 2015 were impressive and the Council had demonstrated that it is now fit to continue its' Children's Services improvements without the Commissioner oversight. • On top of the Ofsted report giving a 'good' rating in January 2018 and the independent Health Check outcomes in June 2018, the Commissioner Team finally recommended to the Secretary of State for Housing and Communities and Local Government (SoS), the intervention at the Council could be concluded. • In September 2018, the SoS revoked the directions imposed on the Council and stood down the Commissioners. In doing so, the SoS set a requirement for the Council to submit an independent review of Council's performance by 18th February 2019. The Council commissioned the previously appointed commissioners with support from the Local Government Association (LGA) to undertake this review. • The purpose of this review was to establish Council's performance in relation to; political and managerial leadership including effective working between members and officers, organisational culture and governance, quality of partnership working, delivery against strategic priorities, delivery of the MTFS, progress against the Ofsted recommendations. • This review was carried out in February 2019 and the report was sent to the Council on 14 February 2019. The report noted that the pace of improvement across the Council had increased beyond the Commissioner's expectations and that give assurance that the Council was compliant with the best value duty. The report concluded that, *"Rotherham Council has made significant progress over the last 12 months and is on the right trajectory for sustained improvement. Like other councils it faces some significant challenges particularly in finance and managing demand, which will test its capacity and resolve. Members and officers show grip, confidence and competence, all of which bode well for the future".* • As a result of these findings, on 27 March 2019, the SoS formally wrote to the Council indicating the Directions relating to the governance of the Council lapse on 31 March 2019 as SoS saw no evidence that suggested the Government should seek to extend the Directions. The SoS also acknowledged with the Independent Reviewers that Rotherham is now an authority fit for purpose, able to operate fully without the need for any oversight from Government. There is clear evidence from independent sources, as described above, to demonstrate the significant progress and achievements the Council has made since the Jay report publication in August 2014. We are satisfied proper arrangements were in place for sound governance and informed decision making around Children's Services at the Council during 2018-19.	We concluded that the Council has proper arrangements in place for sound governance and informed decision making around Children's Services at the Council.

Additional significant risk identified	Findings	Conclusion
3 **Dedicated School Grant £15.1m deficit position and recovery plan** Our review of Council's draft 2018-19 accounts presented for audit highlighted that Dedicated School Grant (DSG) reserve was in material deficit by £15.1m as at 31 March 2019. This is an increase of £5.4m during 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m. Therefore, in two year period, the DSG deficit has increased by c10m. This is a significant increase during a time where the Council is undergoing increasing pressures for its services resulting other financial challenges. As a result, we considered this as an additional significant risk for our Value for Money Conclusion work in 2018-19.	Our findings were as follows: • From 2018-19, all local authorities with a cumulative Dedicated Schools Grant (DSG) deficit of 1% or more at the end of the financial year must submit a recovery plan to the Education and Skills Funding Agency (ESFA), showing how they will bring the deficit into balance in a three year time frame • A joint Department for Education and CIPFA statement released in June 2019 confirms that both parties are committed to working with other stakeholders to clarify the legal basis for, and accounting treatment of, DSG deficits in time for the 2020-21 budget round and 2019-20 accounts closure. The Joint Statement also confirms that the CIPFA Local Authority Accounting Panel (LAAP) considered the issue for 2018-19 and noted concerns regarding the presentation of an earmarked deficit DSG reserve, particularly given that there is not a clearly identified legislative basis for the ring-fencing of DSG deficits. • If a Council feels that a three-year time frame is not realistic, it will be able to submit with its plan evidence that states how this may not be achievable. • ESFA will review each recovery plan on a case by case basis and will decide if they can accept a recovery plan that leaves some or all of the deficit accumulated to date outstanding. This would result in the Council carrying forward the agreed deficit and it would not require this to be recovered within the three-year period. • Our discussions with the senior management indicated that the Council has submitted a 3 year DSG recovery plan in line with guidance to ESFA. We noted the recovery plan submitted does not recover the deficit over 3 year period but tries to reduce the rate of increase over the next 3 years to a minimum (to £16.5m in 2019-20, £17.2m in 2020-21 and £17.6m in 2021-22) with a planned increase of £2.5m from 2018-19 year end. • We understand the Council is still awaiting a response from ESFA in relation to the submitted plan and it intends to discuss this with ESFA in due course. The Council has also produced a report (as required by the guidance) to Schools Forum setting out the reasons why the DSG deficit has increased in recent years and its plan to reduce the rate of increase in the deficit over the coming 3 years. • The Monitoring report for the first 2 months of 2019-20 performance presented to the Cabinet on 8 July highlighted the continuing significant financial pressures around DSG expenditure. The report noted challenges around rising numbers of children supported in specialist provision and the rising costs of Education Health Care (EHC) plans. • We acknowledge there are significant financial pressures in DSG expenditure . This will continue to be an area of focus in Local Government sector and in our planning work for 2019-20. • We discussed the Council's current accounting treatment for the DSG deficit. Whilst the use of a negative earmarked reserve is not good practice, the net Usable Reserves position is appropriately stated. We concluded on that basis that the Council's Usable Reserves are properly stated and that as such a user of the financial statements will be able to take an informed view of the Council's overall level of balances and reserves based on the information within the statements. • However, should the Council's level of DSG deficit continue to increase significantly (above the planned position) the effective call on the Council's general reserves will result in a reduced 'net' useable reserves position. General Fund (£16.8m), earmarked reserves (£21.3m) and school reserves (£3.4m) totalled £41.5m as at 31 March 2019 (which in itself was a reduction of £6.6m from 2017-18) but given the DSG position of £15.1m deficit, the net position of the Council's non-HRA revenue reserves is effectively £26.4m. Any continued reductions on reserves coupled within increases in the DSG deficit would place the Council's revenue reserves under real pressure.	We concluded that the Council has proper arrangements in place for informed decision making in relation to DSG expenditure. As part of our VFM work, we have noted the material deficit (of £15.1m) on the Council's Dedicated Schools Grant (DSG) reserve. We have raised a recommendation in relation to monitoring of the Council's recovery plan following the significant increase of c£10m noted in the deficit over the past two years. Should the deficit continue to increase in 2019-20 this may have implications for our 2019-20 VFM conclusion.

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix C.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified:

Service	£	Threats	Safeguards
Audit related:			
Housing Benefit Certification	15,826	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £15,826 in comparison to the total fee for the audit of £108,438 and in particular relative to Grant Thornton UK LLP's turnover overall.
Pooling of Housing Capital Receipts Return Certification	2,700	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £2,700 in comparison to the total fee for the audit of £108,438 and in particular relative to Grant Thornton UK LLP's turnover overall.
DfT grant on Local Transport Major Projects (LTPMP)	3,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £3,000 in comparison to the total fee for the audit of £108,438 and in particular relative to Grant Thornton UK LLP's turnover overall.
Non-Audit related:			
None			

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings (ISA260) report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

We have not provided any other services to the Council in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018.

Appendix A: Action Plan

We have identified the recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2019-20 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Rec	Issue and risk	Recommendations
1	**Delivery of 2019-20 budget, savings plan and achievement of Medium Term Financial Strategy (MTFS)** Our work on Value For Money conclusion on page 17 highlighted the significant financial pressures in which the Council operates. This reflected an increasing pattern across the local authority sector. Continuing reduction in central government funding, uncertainty around the timing and detail of future funding mechanisms coupled with increasing service demands (e.g. adult social care and children's services) , achievement of savings plans and MTFS is becoming increasingly challenging. During our VFM work, we identified that the Council has a good financial management and reporting system to the Council and the Cabinet. However, any non-achievement of the savings plans and MTFS would result in difficulties around sustainable resource deployment and could impact on the essential services provide by the Council to its' local population.	Management should continue to asses it's financial performance and monitoring procedures regularly to ensure the savings plans for 2019-20 and resulting achievement of the budget and MTFS are on track. This should include continuing assessment of the demand for key services and address the funding gaps to ensure the Council continues to be financially resilient and sustainably delivering services against its key priorities. **Management response:** In February 2019, the Council set a two-year budget for 2019/20 and 2020/21 alongside agreeing an MTFS to 2021/22. This followed extensive work throughout 2018 to develop robust budget savings options, to undertake a complete review of MTFS assumptions and to refresh the reserves strategy. The MTFS remains under regular review and a further update is scheduled to go to Cabinet in November 2019. Currently it is not envisaged that this will require any new budget savings to be identified for either 2020/21 or 2021/22. However, as the ISA 260 notes, information from the Government on funding to local authorities beyond 2019/20 has been delayed which is not conducive to the Council's (or other public sector bodies) ability to firm up medium term financial plans. Finalisation of the update to the Council's MTFS can only be done when future funding allocations are received from the Government.
2	**Dedicated Schools Grant reserve deficit and Recovery Plan** Our work on Value For Money conclusion on page 19 highlighted there was a material deficit of DSG reserve of £15.1m as at 31 March 2019. We identified that in two year period, the DSG deficit had increased by c10m. This is a significant increase during a time where the Council is undergoing increasing pressures for its services resulting in other financial challenges. Our work indicated the Council has complied with the latest guidance available in this area and has submitted a deficit recovery plan to Education & Skills Funding Agency (ESFA). Further national guidance on dealing with DSG reserve deficits is expected to be issued in 2019-20. Should the deficit continue to increase in 2019-20 this may have implications for our 2019-20 VFM conclusion.	The Council should: • Discuss the recovery plan with ESFA and agree a clear action plan on how the deficit can be recovered • Monitor the recovery plan to ensure correct actions are taken as necessary with the involvement of senior management • Continue to report the DSG deficit issues to the Cabinet to keep the members informed of actions undertaken • Continue to discuss relevant matters with the School Forum so key stakeholders are involved and kept up to date of Council's actions. **Management response:** The Council will continue to maintain dialogue with the Education and Skills Funding Agency on the Recovery Plan. The DSG reserve deficit and progress on the Recovery Plan is reported regularly to Cabinet and to Overview and Scrutiny Management Board and this will continue throughout 2019/20. Dialogue with the Schools Forum on these issues will also be maintained.

Appendix B: Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted items

All adjusted items are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on the Council's useable reserves
1	**Post year-end national McCloud issue (Pensions balance)** As a result of Supreme Court's decision on 27 June 2019 denying the Government to appeal against the 'McCloud case' gave rise to reassess the Council's IAS19 liabilities and associated disclosures. The Council is responsible for making the estimates included in the financial statements and for ensuring that the financial statements are not materially misstated which also includes IAS19 entries. Due to significant amounts involved under pension liabilities, Council made a decision and instructed its actuary to run a revised IAS19 report incorporating the impact of McCloud and GMP Judgement. The assessment is expected to result in a material change to the previously reported pension liabilities in the draft accounts (of c£15m). We anticipate the Council will incorporate the revised figures into the financial statements once received from the actuary.	15,474 Increase in Surplus / Deficit on Provision of Services 197 Decrease in Actuarial Gains / Losses Pension Interest Cost 1	15,474 Increase in pension liability 15,278 Increase in pension reserve deficit	There is no impact on the Council's useable reserves arising from this adjustment.
	Overall impact			**No impact on useable reserves**

Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

No	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1.	Disclosure	• Assets under construction are not depreciated – updated to correct this disclosure • Depreciation – text was updated to correct that all revalued items are depreciated in line with accounting policy • Accounting Standards issued but not yet updated – this was updated using the LG code guidance notes issued for 2018-19	Accounting Policies (pages 14,18, 20, 32)	✓
2.	Disclosure	The text was updated to capture the correct accounting standard which is IFRS15.	Note 1c - page 39	✓
3.	Disclosure	A narrative note was made to further clarify why some reserves reported at 31 March 2018 were not included in the 31 March 2018 column of the table. The reason was to streamline the reserves process, some were merged in to one and this was reported to the Cabinet on that basis.	Note 3 - pages 44/45 :	✓
4.	Disclosure	A narrative note was added to further explain the actions taken on Dedicated School Grant deficit as at 31 March 2019.	Note 16 - pages 59-60	✓
5.	Disclosure	A narrative note was added to explain this was a reclassification rather than restatement and the reason for the reclassification	Note 6 - page 47	✓
6.	Disclosure	Additional note was added to further clarify why some senior officers who appeared in the 2017-18 column were not included in 2018-19.	Note 14 , Staff Remuneration	✓
7.	Disclosure	• An additional note was added to explain why some organisations that appeared in 2017-18 disclosures did not appear in 2018-19. • Two companies were added back (Gallery Town and Meadowhall Education Centre Ltd as they are related companies with transactions).	Note 17, Related Party Transactions	✓
8.	Disclosure	• A note was added to further clarify the code guidance to state there is no prescribed minimum period between valuations requirements for Heritage Assets.	Note 23, Heritage Assets	✓
9.	Disclosure	• A note was added to explain that the 2017-18 position has changed in this table.	Note 26, Financial Instruments Fair Values	✓
10.	Disclosure	• Enhanced disclosure note around the cash flow statement. that reconciles I&E outturn to cash from operating activities was added	Notes to the Cash Flow Statement	✓

Audit Adjustments

Misclassification and disclosure changes continued

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

No	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
11	Disclosure	• Amendment of notes 39 and 40 to illustrate that the cash receipts for PPE were net of loan repayments .	Notes 39 and 40	✓
12	Disclosure	• Addition of a note to disclose that the variation between the MRP charge in note 42 and note 38 part (a) is due to the inclusion of MRP for Metropolitan Debt within the amount disclosed in note 42.	Note 38 (a), page 94 Note 42, page 99	✓
13	Disclosure	• Amendment leading to a reduction of other non specific revenue grants disclosed in note 8. This included the education services grant (ESG) which had already been included within the total figure for the dedicated schools grant disclosed in notes 8 & 16.	Note 8, page 48	✓
14	Disclosure	• Audit Fees note was updated to further clarify amounts payable to Grant Thornton (UK) LLP for year ended 31 March 2019	Note 15, Audit Fees	✓

Appendix C: Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit Fees

	Proposed fee	Final fee	2017-18 fee (to predecessor auditor)
Authority Audit	£108,438	£TBC*	£140,828
Total audit fees (excluding VAT)	**£108,438**	**£TBC***	**£140,828**

** We wish to note that in light of the additional audit work to be performed on the Pension balances and entries in the Authority's accounts (as a result of the McCloud judgement and GMP), and the additional auditing testing performed on the Council's land and buildings following increased requirements for audit work in these areas, we will be proposing an additional fee in 2018-19. The additional fee is expected to be in the region of c£5,000. We will provide an update on this in our Annual Audit Letter, due to be agreed with management in August and presented to the Audit Committee in September 2019. Final approval of any additional audit fee will be by Public Sector Audit Appointments Ltd (PSAA).*

The audit fees reconcile to note 15 in the financial statements

Non Audit Fees

Fees for other services	Fees £
Audit related services:	
• Housing Benefit Certification	15,826
• Pooling of Housing Capital Receipts	2,700
• DfT grant on Local Transport Major Projects (LTPMP)	3,000
Total audit related services	**21,526**
Non-audit services:	
• None	-

Appendix D: Audit opinion (proposed)

We anticipate we will provide the Council with an unmodified 'clean' audit opinion by 31 July 2019

Independent auditor's report to the members of Rotherham Metropolitan Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rotherham Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Accounting Concepts and Policies, Notes to the Core Financial Statements, Housing Revenue Account and related notes to the Housing Revenue Account, the Collection Fund and related notes to the Collection Fund and Metropolitan Debt Administration and related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018-19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018-19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

the Strategic Director - Finance and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or

the Strategic Director - Finance and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Strategic Director - Finance and Customer Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement other than the financial statements, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Audit opinion (proposed)

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or

we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Strategic Director – Finance and Customer Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director – Finance and Customer Services. The Strategic Director – Finance and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018-19, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director – Finance and Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director – Finance and Customer Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Audit opinion (proposed)

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects 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. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2019. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

TO BE SIGNED

Gareth Mills, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

Date: TBC

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