The Annual Audit Letter for Rotherham Metropolitan Borough Council

Year ended 31 March 2019

August 2019

Contents

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1. Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Rotherham Metropolitan Borough Council (the Council) for the year ended 31 March 2019.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'.

We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings (ISA260) Report on 30 July .

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Our work

Materiality	We determined materiality for the audit of the Council's financial statements to be £10,500,000, which was 1.8% of the Council's gross revenue expenditure.
Financial Statements opinion	We gave an unqualified 'clean' audit opinion on the Council's financial statements on 8 August 2019. Our opinion was issued shortly after the original target date of 31 July, this was in relation to us concluding the audit documentation on our audit file to ensure it was complete as at the date we issued our audit opinion. It was our decision to sign our audit opinion a short period after the target date and this was not as a result of any issues in relation to the Council's accounts or supporting working papers provided.
Whole of Government Accounts (WGA)	We completed work on the Council's consolidation return following guidance issued by the NAO.
Use of statutory powers	We did not identify any matters which required us to exercise our additional statutory powers.
Value for Money arrangements	We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the members of the Council on 8 August 2019.
Certificate	We certified that we have completed the audit of the financial statements of the Council in accordance with the requirements of the Code of Audit Practice on 22 August 2019.

Executive Summary

Working with the Council

In our first year of audit at the Council, we believe we have developed professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with senior officers including the Chief Executive, the s151 Officer, senior finance managers and the Chair of the Audit Committee to understand the issues facing the Council
- an efficient audit - we delivered an efficient audit with you in June and July and worked well with your finance team
- understanding your operational environment and challenges – through the value for money conclusion work, we provided assurances around your arrangements in place to secure economy, efficiency and effectiveness in use of Council’s resources
- Sharing our insight – we provided regular audit committee updates covering best practice. We also contributed to discussions and debates on a variety of committee topics outside of external audit agenda items
- Providing accounts workshops – we provided your finance team with training workshops, focusing on key changes to 2018-19 financial statements and main risk areas for the audit.
- Supporting development – we provided a workshop for members of the Audit Committee on the roles and responsibilities of audit committees including governance issues, accounting developments and value for money arrangements. The day was an opportunity for members to network with other members across our Yorkshire local authority client base and discuss audit committee effectiveness.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
August 2019

2. Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the financial statements to be £10,500,000, which is 1.8**%** of the Council's gross revenue expenditure. We used this benchmark as, in our view, users of the Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £5,000 for senior officer remuneration.

We set a lower threshold of £525,000, above which we reported errors to the Audit Committee in our Audit Findings (ISA260) Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed
- the significant accounting estimates made by management are reasonable
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the financial statements, the narrative report and the annual governance statement published alongside the financial statements to check it is consistent with our understanding of the Council and with the financial statements on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's operational activities and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
Management over-ride of controls 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 Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We identified management over-ride of controls as a risk requiring special audit consideration.	As part of our audit work we: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined 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 accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any significant changes in accounting policies, estimates or significant unusual transactions.	Our audit work did not identify any issues in respect of management override of controls.

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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 (c£900m) 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 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	As part of our audit work we: • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding • tested 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 • assessed how management have confirmed assets valued at 1 April 2018 have not significantly changed in value by the year end, 31 March 2019 • evaluated 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 • reviewed 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 were reported in our Audit Finding Report to the Audit Committee on 30 July 2019.

Audit of the Financial Statements

Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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 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.	As part of our audit work we: • updated 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 • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assessed the accuracy and completeness of the information provided to the actuary to estimate the liabilities • tested 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 • performed 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 • requested the council to obtain updated reports from its actuary to take into account the impact on the Council's pension numbers as a result of the McCloud Supreme Court judgement which occurred after the publication of Council's draft accounts on 31 May 2019. We assessed the updated actuary report to understand the overall impact to the pension fund liability of the Council. • obtained 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	The Council requested updated reports from its actuary to take into account the impact on the Council's pension fund numbers, as a result of the McCloud judgement, which occurred after the publication of draft accounts on 31 May 2019. The revised report resulted in an increase in the Council's pension fund liability of £15.4m, which was adjusted in the final accounts approved on 30 July 2019. This adjustment did not impact on the Council's level of useable reserves. Our audit work did not identify any other significant issues.

Audit of the Financial Statements

Audit opinion

We gave an unqualified 'clean' opinion on the Council's financial statements on 8 August 2019.

Our opinion was issued shortly after the original target date of 31 July, this was in relation to us concluding the audit documentation on our audit file to ensure it was complete as at the date we issued our audit opinion. It was our decision to sign our audit opinion a short period after the target date and this was not as a result of any issues in relation to the Council's accounts or supporting working papers provided.

Preparation of the financial statements

The Council presented us with draft financial statements in accordance with the national deadline, and provided a good set of working papers to support them. The finance team responded promptly and efficiently to our queries during the course of the audit.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Audit Committee on 30 July 2019.

Annual Governance Statement and Narrative Report

We are required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website alongside the Statement of Accounts in line with the national deadlines.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We carried out work on the Council's Data Collection Tool in line with instructions provided by the NAO. We issued an assurance statement which did not identify any issues for the group auditor to consider.

Certificate of closure of the audit

We certified that we have completed the audit of the financial statements of Rotherham Metropolitan Borough Council in accordance with the requirements of the Code of Audit Practice on 22 August 2019.

3. Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in November 2017 which specified the 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.

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.
We identified two risks in our audit plan presented to the Audit Committee in January 2019 and one additional risk after to the draft accounts were presented for audit on 31 May 2019.

As part of our Audit Findings (ISA260) report presented to the Audit Committee in July 2019, we agreed two recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2019.

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Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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 (latest available at the time of our Audit Plan) highlighted that further actions were required to reduce forecast expenditure by £3.1m in order to deliver a balanced budget at month12. Our further discussions with management indicated this has been 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 to achieve a balanced budget. We were aware (January 2019) that a two year balanced budget is currently being compiled by the Council and will be published after January 2019.	As part of our work we: • reviewed key financial and operational documents including the final outturn report for 2018-19 • discussed key relevant financial matters with senior management.	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 corporate 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. For 2019-20, 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, continues 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 requirements. The Council undertook a review of all its General Fund Reserves during the year. This review established that some of the reserves were 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. This is excluding the DSG deficit reserve discussed further on page 13. This position improved by £3.2m as a result of 2018-19 final outturn. Our findings highlighted 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 ability to estimate sound financial planning for the medium term. We raised one recommendation around Delivery of 2019-20 budget, savings plan and achievement of MTFS. We considered the Council's arrangements to ensure it is financially resilient to deal with budgetary pressures and, overall, we were 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.

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
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 were aware that the Council has requested the commissioners to perform a review of Children's Services which is expected to report back by 31 March 2019. This review was expected to give an indication as to whether the quality of services has been maintained since the commissioners handed back control. We considered external inspections and related reports on Children's Services at the Council as part of our VFM work.	As part of our work we: • reviewed key third party independent reports including government publications • discussed key relevant matters with senior management.	• 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 the Children's Services improvements without the Commissioner oversight. • On top of the Ofsted report awarding 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 wrote to the Council indicating the Directions relating to the governance of the Council could lapse on 31 March 2019 as the 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 was 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 concluded that the Council has proper arrangements in place for sound governance and informed decision making around Children's Services at the Council.

Risks identified after the Audit Plan	How we responded to the risk	Findings and conclusions
Dedicated School Grant Reserve: £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 of £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.	As part of our work we: • reviewed guidance issued by DSG and ESFA • Reviewed Council's DSG recovery plan • discussed key relevant matters with senior management.	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 confirmed 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 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 with a planned increase of £2.5m from 2018-19 year end. The Council was 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 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 in July highlighted the continuing significant financial pressures around DSG expenditure. The report highlighted challenges around rising numbers of children supported in specialist provision and the rising costs of Education Health Care (EHC) plans. . We discussed the Council's current accounting treatment for the DSG deficit. Whilst the use of a negative earmarked reserve is not a 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. However, we 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.

Appendix A: Reports issued and fees

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

Reports issued

Report	Date issued
Audit Plan	January 2019
Audit Findings (ISA260) Report	July 2019
Annual Audit Letter	August 2019

Fees

	Planned £	Actual fees £	2017-18 fees £
Statutory audit	108,438	TBC – see table on right	140,828
Total fees	**108,438**	**TBC**	**140,828**

Non- audit 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

There were no non-audit related services delivered in 2018-19. The amounts detailed above are fees agreed for audit related services to be undertaken by Grant Thornton UK LLP in 2018-19. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

None of the services provided are subject to contingent fees. We have not provided any other services in 2017-18 prior to our appointment as external auditors to the Council on 1 April 2018

Audit fee variation

As outlined in our Audit Plan, the 2018-19 scale fee published by PSAA of £108,438 assumes that the scope of the audit does not significantly change. There are a number of areas where the scope of the audit has changed, which has led to additional audit work. We noted this expectation in our ISA260 Report in July.

The areas of additional work and resulting fee implications are set out in the following table.

Area	Reason	Fee proposed £
McCloud: **Assessing the impact of the McCloud ruling**	The Government's transitional arrangements for pensions were ruled discriminatory by the Court of Appeal last December. The Supreme Court refused the Government's application for permission to appeal this ruling. As part of our audit we reviewed the revised actuarial assessment of the impact on the financial statements along with any audit reporting requirements.	3,000
Pensions: **IAS 19 audit work**	The Financial Reporting Council has highlighted that the quality of work by audit firms in respect of IAS 19 needs to improve across local government audits. Accordingly, we have increased the level of scope and coverage in respect of IAS 19 this year to reflect this.	3,000
Land and Building Valuation: **work of experts**	As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on land and buildings valuations across the sector. We have increased the volume and scope of our audit work to reflect this.	3,000
Total		**9,000**

The proposed fee variations are subject to PSAA approval.

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