

# The Annual Audit Letter for Rotherham Metropolitan Borough Council

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Year ended 31 March 2020

11 January 2021



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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 2020.

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 24 November 2020.

## Our work

<b>Materiality</b>	We determined materiality for the audit of the Council's financial statements to be £9,000,000, which is 1.5% of the Council's gross revenue expenditure.
<b>Financial Statements opinion</b>	We issued an unqualified opinion on the Council's financial statements on 4 December 2020.  We included an emphasis of matter paragraph in our report in respect of the uncertainty over valuations of the Council's land and buildings including investment properties and the Authority's share of the pension fund's property investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.
<b>Whole of Government Accounts (WGA)</b>	We are currently completing work on the Council's consolidation return following guidance issued by the NAO.
<b>Use of statutory powers</b>	We did not identify any matters which required us to exercise our additional statutory powers.

## 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.

# Executive Summary

<b>Value for Money arrangements</b>	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 Council on 4 December 2020.
<b>Certificate</b>	We are currently unable to certify that we have completed the audit of the financial statements of Rotherham Metropolitan Borough Council. This is because we have yet to complete work on the Council's Whole of Government Accounts consolidation return. Once this is completed, we will be able to certify that we have completed the audit of the Council's financial statements in accordance with the requirements of the Code of Audit Practice.

## Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council and also how our external audit work was performed. Both Council and audit staff have had to work remotely, including remotely accessing working papers and financial systems. In addition, face to face meetings have been replaced by telephone and video conferencing arrangements which has also extended to Council Committee meetings including the Audit Committee. This remote working on both sides, combined with the increased level of audit testing performed and audit evidence required (particularly in respect of the significant risk areas) resulted in the audit fieldwork taking longer than planned.

This is our second year of audit at Rotherham Metropolitan Borough Council and we believe we have continued to develop professional working relationships with you and your officers and have delivered a number of positive outcomes, including:

- regular liaison with the finance team and members of senior management and members of the Audit Committee to understand the issues facing the Council
- understanding your operational health – through the value for money conclusion we provided you with assurance on your operational effectiveness

- sharing our insight – we provided regular Audit Committee updates covering best practice
- providing training – we provided your teams with training on financial statements and annual reporting.

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**  
January 2021

## 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 Council's financial statements to be £9,000,000, which is 1.5% 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 for senior officer remuneration.

We set a lower threshold of £450,000, above which we reported errors to the Audit Committee in our Audit Findings 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; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts 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 business 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 Addendum (April 2020)	How we responded to the risk	Findings and conclusions
<p><b>Covid-19</b></p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"><li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li><li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li><li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen</li><li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li></ul> <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"><li>• worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts and assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported</li><li>• liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert</li><li>• evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic</li><li>• evaluated whether sufficient audit evidence could be obtained through remote technology</li><li>• evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations</li><li>• evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li><li>• discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence.</li></ul>	<p>On the basis of our work, we concluded that our audit report opinion would be unqualified with an emphasis of matter relating to the material uncertainty around the valuation of land and buildings including investment properties and the Authority's share of the pension fund's property investments. This change to our opinion was a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings is consistent across our other local authority audits.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Management over-ride of controls</b></p> <p>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.</p> <p>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.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"><li>evaluated the design effectiveness of management controls over journals</li><li>analysed the journals listing and determined the criteria for selecting high risk unusual journals and testing them</li><li>tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li><li>gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence</li><li>evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li></ul>	<p>There were no issues arising from our work which we needed to bring to your attention.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of land and buildings</b></p> <p>The Authority re-values 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£905 million) and the sensitivity of this estimate to changes in key assumptions.</p> <p>Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used.</p> <p><b>Updated post March 2020:</b> The covid-19 pandemic has resulted in the volatility of financial and property markets. This will increase the uncertainty of assumptions applied by management to asset valuations. Therefore we have now included investment properties valuation as well under this significant risk. This significant risk now covers Council dwellings, other land and buildings (as per Audit Plan) and investment properties.</p> <p>We therefore identified valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work, we:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land and buildings are not materially misstated and evaluated the design of the associated controls</li> <li>evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work</li> <li>evaluated the competence, capabilities and objectivity of the valuation expert</li> <li>discussed with the valuer the basis on which the valuation was carried out</li> <li>challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, including checking that the floor areas used are consistent with other records.</li> <li>in a new development for 2019-20, engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation</li> <li>tested revaluations made during the year to see if they had been input correctly into the Council's asset register in line with Code guidance.</li> <li>evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value at year end</li> <li>evaluated whether sufficient audit evidence can be obtained due to Covid-19 impact to corroborate significant management estimates around land and buildings.</li> </ul>	<p>The Council uses in-house RICS qualified valuers to value its land and buildings including investment properties. The valuation reports included a material valuation uncertainty paragraph as a result of Covid-19 which was also reported in the Council's financial statements under material estimation uncertainties. As a result we included an emphasis of matter in our audit opinion relating to this material uncertainty. This does not affect our opinion that the financial statements gave a true and fair view of the Council's financial position and its income and expenditure for the year. It is also important to note that this was a national issue, applying to most local authorities with material land and building asset bases.</p> <p>Other than the above matter, our work identified some immaterial misstatements which were not adjusted in the financial statements. We reported these as unadjusted misstatements in our Audit Finding Report. The unadjusted misstatements were not material and therefore had no impact on the audit opinion which we issued on 4 December 2020.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Valuation of pension fund net liability</b></p> <p>The Authority's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£459m in the Authority's balance sheet at 31 March 2019) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Authority's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our work, we:</p> <ul style="list-style-type: none"> <li>updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls</li> <li>evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work</li> <li>assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation</li> <li>assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability</li> <li>tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary</li> <li>undertook 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</li> <li>obtained assurances from the auditor of the 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.</li> </ul>	<p>Our work identified that the figures provided on investment return in the actuary reports were based on asset valuations as at 31 January 2020. As part of the South Yorkshire Pension Fund (SYPF) final accounts process, SYPF revised the investment return percentage based on the final fund valuation as at 31 March 2020. This exercise resulted a decrease in investment return of 0.63% which in turn had an overall impact of increasing the net pension liability by £7.4m. Management amended the financial statements for this matter in the final version of the accounts.</p> <p>Further to our discussions with the Council's actuary, we obtained confirmation that the actuary had already made allowances in terms of the impact on the McCloud judgement on their 31 March 2020 actuary report. In terms of Goodwin judgement (a pensions discriminatory legal case), the actuary confirmed the maximum impact would be a c0.1% increase of the pension liability which amounts to less c£0.5m. This was not deemed material and we did not request any adjustment to the financial statements in relation to this matter.</p> <p>Our review of the assurance letter from the South Yorkshire Pension Fund auditor noted that the valuation report for directly held properties of the Pension Fund included a material uncertainty over the pension fund valuation due to Covid-19. Following discussions with officers, the Council expanded its disclosure to include this material uncertainty in its financial statements.</p> <p>We included an emphasis of matter paragraph in our audit report in respect of the uncertainty over valuations of the Council's share of the Pension Fund's directly held property investments given the Coronavirus pandemic. This does not affect our opinion that the statements give a true and fair view of the Council's financial position and its income and expenditure for the year.</p>

# Audit of the Financial Statements

## Significant Audit Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions
<p><b>Implementation of a new Payroll system (iTrent)</b></p> <p>The Council implemented a new Payroll system, iTrent from 1 June 2019. Based on our knowledge and experience, iTrent payroll systems are used by other local authorities similar in size and scale to the Council.</p> <p>The payroll system is a major financial process that generates a large volume and value of transactions and is central to producing materially accurate payroll payments and the resulting payroll figure in the financial statements.</p> <p>Local authority accounting transactions can be complex and are typically significant in volume. The Authority employs over 5,000 employees and their salaries and pension payments are paid through its payroll system. In 2018-19, over £221m employee benefit expenses were processed and paid through Authority's payroll system. This is c33% (one third) of Authority's total expenditure in 2018-19.</p> <p>Update for 2019-20: The draft 2019-20 accounts presented for audit, show a total of £205m of employee benefit expenses processed through the payroll system. This accounts for c31% of total expenses of the Council for 2019-20 as disclosed in note 1b.</p> <p>Accuracy and completeness of data migration from an old to a new system is paramount for transparent financial reporting. This is considered more important when the system in question processes significant amount of transactions and accounts for nearly one third of Council's total expenditure. There is an inherent risk that things could go wrong in data migration from one system to another due to human and technological errors.</p> <p>We considered this is a risk requiring special audit consideration for our 2019-20 audit.</p>	<p>As part of our work, we:</p> <ul style="list-style-type: none"><li>reviewed management arrangements and understanding of the processes and controls in place to ensure successful migration of data from the old payroll system to the new iTrent system as at 1 June 2019</li><li>through engaging our IT specialists, undertaken work to determine whether adequate controls for new system have been established to ensure that the new system was appropriately authorised, tested, approved before implementation</li><li>through our IT specialists, undertook a review to establish how the new system was configured / access allocated and other IT general controls implemented over it to appropriately manage IT risks</li><li>examined the opening balances as at 1 July 2019 to confirm these have been completely and accurately brought forward from the old payroll system to iTrent.</li></ul>	<p>There were no issues arising from our work which we needed to bring to your attention.</p>

# Audit of the Financial Statements

## **Audit opinion**

We issued an unqualified opinion on the Council's financial statements on 4 December 2020.

## **Preparation of the financial statements**

The Council presented us with draft financial statements for audit on 31 July 2020, one month before the revised deadline of 31 August 2020. It also 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 despite the challenges arising from Covid-19. This ensured the audit progressed in a very efficient manner and we would like to thank the finance team and other relevant officers for their engagement in the 2019-20 audit process.

## **Issues arising from the audit of the financial statements**

We reported the key issues from our audit to the Council's Audit Committee on 24 November 2020.

In addition to the key audit risks and findings reported earlier in this report, our work identified some immaterial disclosure misstatements which were not adjusted in the financial statements. We reported these as unadjusted misstatements in our Audit Finding Report. Importantly, these unadjusted items were not material and therefore had no impact on our audit opinion which we issued on 4 December 2020.

## **Annual Governance Statement and Narrative Report**

We are also required to review the Council's Annual Governance Statement and Narrative Report.

Our work indicated that 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 are currently undertaking work in line with instructions provided by the NAO. Once this work is complete, we expect to issue an assurance statement for the group auditor.

## **Certificate of closure of the audit**

We are unable to certify at this time that we have completed the audit of the financial statements of Rotherham Metropolitan Borough Council. This is because we have yet to complete work on the Council's Whole of Government Accounts consolidation return. Once completed, we will be able to certify that we have completed the audit of the Council's financial statements in accordance with the requirements of the Code of Audit Practice.

### 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 April 2020 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.

As part of our Audit Findings report agreed with the Council in November 2020, 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 2020.

# Value for Money conclusion

## Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
<p><b>Financial standing - delivery of 2019-20 budget and savings plan</b></p> <p>For 2019-20, the Authority was planning to deliver a balanced outturn position but to achieve this, needed to deliver savings of some £7.7m whilst continuing to manage cost and demand pressures within Children's Services, Adult Social care, DSG and other vital services for the local population.</p> <p>The Month 7 Financial Monitoring Report presented to Cabinet indicated the Authority was projecting an overall general fund overspend of £4.1m at the year end. The main reasons for this were continuing pressures on social care services and timing issues with the delivery of budget savings which were taking longer than anticipated to be achieved in full. The Council had £3.2m of the budget contingency reserve remaining and continued to work to identify further mitigating budget savings and cost reductions in order to maintain a balanced budget position at the year end</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>reviewed key financial and operational documents including final outturn report for 2019-20</li> <li>continued to monitor the Authority's current and medium term financial position through regular meetings with senior management</li> <li>reviewed the financial reports to the Cabinet detailing impact on COVID-19 to the Council's budget for 2020-21.</li> <li>Reviewed updated MTFS (capturing COVID-19 impact) which was presented to the Cabinet in November 2020</li> </ul>	<p><b>2019-20:</b></p> <ul style="list-style-type: none"> <li>As reported to the Cabinet in July 2020, the Council delivered the 2019-20 budget. The final outturn for 2019-20 was a balanced budget which required £1.2m of Corporate Reserves. The use of reserves was £2m less than initially budgeted figure of £3.2m. As a result, £2m of Corporate Reserves will now be carried forward to be used in future budget requirements. There were overspends on Children's and Young People's budget (£4.4m), Adult Care Housing and Public Health (£0.7m), Regeneration and environment (£2.5m). These were compensated by underspends on Central services (£5.6m) and other Directorates by £0.8m, resulting in a requirement of £1.2m of the corporate budget contingency reserve.</li> <li>The Council's total usable reserves (capital and revenue) decreased by £9.3m during the year from £107.8m in 2018-19 to £98.4m. Total General Fund earmarked reserves increased from £38.1m from 2018-19 to £49.3m. The main contributor for this is increase was £15.2m Covid-19 grant funding which was received in March 2020 and now earmarked for Covid-19 related responses in the future. However, the DSG reserve deficit increased by £4.7m from £15.1m to £19.8m and more reporting on the DSG deficit is covered at page 22 of this report.</li> <li>The Council delivered part of its 2019-20 savings target of £7.7m, in achieving the balanced budget in 2019-20 under challenging circumstances.</li> <li>As reported to the Cabinet in July 2020, the Council's General Fund minimum balance has now been increased to £20.7m as of 31 March 2020 from £16.8m at the previous year end. This general fund reserve is to mitigate against future significant financial impacts adversely affecting the Council.</li> <li>Overall, the Council delivered the 2019-20 budget despite challenging financial pressures and the increasing demands on social care in the year.</li> </ul>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
<b>Financial standing - delivery of 2019-20 budget and savings plan – continued</b>	See page 13	<p><b>2020-21:</b></p> <ul style="list-style-type: none"><li>The Covid-19 pandemic has had a considerable impact on the Council from March 2020. Whilst the additional costs have not had a significant impact on the financial outturn for 2019-20 given the pandemic started to impact from mid-March, the scale of the impact is being felt during 2020-21</li><li>According to the latest data return submission to MHCLG, which was made in early October covering 6 months up to end of 30 September 2020, it estimated a gross overall impact of Covid-19 for 2020-21 to be £26.7m. This is derived from additional costs of £11.7m, £6.8m of non delivery of savings due to Covid-19 and £8.2m of income losses up to the 6 months period.</li><li>This £26.7m impact is reduced by £18.9m Covid-19 support grants received from the Government plus further income loss compensation funding received to date of £2.5m to date, leaving a net pressure of £5.3m purely due to Covid-19 financial pressures. However, the budget monitoring report to Cabinet for the same 6 months (up to 30 September 2020) indicates an overspend budget at the year end of 2020-21 of £2.3m. The £3m difference is a net impact of all other non Covid related underspends and overspends forecasted by the year end.</li><li>There are two further periods of grant claims under the COVID-19 income loss compensation scheme in the second half of the 2020-21 from October 2020 to March 2021. Taking these into account, the Council deems it reasonable to anticipate that these further claims and subsequent payments of grant will cover the remaining £2.3m forecast overspend and therefore the financial year-end position will be a broadly balanced budget outturn. Our review has noted that this is not an unreasonable assumption.</li><li>Further management actions in 2020-21 continue to be identified with the clear aim of bringing expenditure into line with budgets. This includes careful scrutiny of expenditure and monitoring and tracking of savings. Other reviews to identify alternative mitigations continue for the remainder of the financial year to help the Council through the pandemic.</li><li>Considering these plans, the availability of specific budget contingency reserves of £2m not called upon in 2019-20 (see previous page) and loss of income compensation claims from October 2020 to March 2021, the Council is in a position to deal with the Covid-19 pandemic impact in 2020-21. This is without the need for any requirement to draw on further funding requests from MHCLG (for example capitalisation orders) or the need to set an emergency budget</li></ul>

# Value for Money conclusion

## Value for Money Risks

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
<b>Financial standing - delivery of 2019-20 budget and savings plan – continued</b>	See page 13	<p><b>2021-22 and 2022-23:</b></p> <ul style="list-style-type: none"><li>The updated MTFS covering 2021-22 and 2022-2023 was presented to the Cabinet on 23 November. We have considered the revised MTFS which incorporates the impact of Covid-19. The MTFS update is a interim review and it will be further reviewed in advance of the Council's Budget setting meeting in March 2021 to take account of the Local Government Finance Settlement for 2021-22 when issued.</li><li>The updated MTFS shows that a balanced budget can be maintained for 2021-22. The two year MTFS includes achievement of £30m savings requirement which was set in 2019. The 2021-22 budget includes £8.5m treasury management savings and utilisation of £4m budget contingency budget and £2m budget contingency reserve carried forward from 2019-20 as indicated on page 14. The GF and earmarked reserves at end of 2020-21 and 2021-22 are currently projected at £37.9m and £35.7m respectively. At this stage, a funding gap of £7.6m is anticipated for 2022-23. Further review will be conducted in March 2021 when funding mechanisms and Covid-19 impacts are more clearer than now as at November 2020.</li></ul> <p><b>Conclusion</b></p> <p>The Council operates under significant financial pressures, however, it continues to have arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources.</p> <p>The Covid-19 pandemic has had a significant impact on the Council from mid March 2020, with additional costs to support operational services, lost income, and implications of potential reduced council tax and business rates payments.</p> <p>The Council continues to manage its financial position and is dealing with the impact of Covid-19. The Council has not had to contemplate an emergency budget to offset the impact of Covid and has plans in place to deal with the expected cost of Covid.</p> <p>The impact of Covid-19 for 2019-20 was limited given its impact commenced during March 2020. The net impact for 2020-21 has been estimated by the Council at £5.3m.</p> <p>We therefore concluded that there are appropriate arrangements in place for sustainable resource deployment. This supported our 'clean' unqualified VFM conclusion.</p>

# Value for Money conclusion

## Value for Money Risks continued

Risks identified in our Audit Plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
<p><b>Dedicated School Grant (DSG) deficit position and recovery plan</b></p> <p>The DSG reserve was materially in deficit at £15.1m as at 31 March 2019. During the previous two years (2016-17 and 2017-18), the DSG deficit had increased by c10m. DSG net expenditure continues to be a challenging service area for the Council in 2019-20 and for the foreseeable future. The Council set a 3 year recovery plan at the end of 2018-19 to reduce the rate of deficit increase from £15.1m in 2018-19 to £17.6m in 2021-22 (a £2.5m increase over 3 year period).</p> <p>The forecast at the end of October 2019 indicated an in-year pressure of £3.3m which may increase the deficit to £18.4m at the year end against a planned deficit of £16.5m for 2019-20. The main pressures are linked to alternative provision, high cost external residential and independent sector placements.</p> <p>As part of our Value for Money arrangements work we will continue to consider the Council's arrangements in place to achieve the DSG recovery plan, other contingency plans and accounting for the DSG deficit in line with relevant guidance available.</p>	<p>As part of our work we:</p> <ul style="list-style-type: none"> <li>Reviewed the annual DSG expenditure for 2019-20 as part of the overall financial performance and 2019-20 outturn report</li> <li>Continued to monitor the Authority's current and medium term DSG position through regular meetings with senior management</li> <li>Reviewed Cabinet reports around DSG performance</li> <li>Reviewed Audit Committee Reports around DSG performance and recovery planning going forward</li> <li>Reviewed the latest NAO guidance on DSG deficits and applied that to Council's circumstances</li> <li>Reviewed the latest DSG recovery plan presented to the School's Forum in September 2020</li> <li>Reviewed the accounting and reporting of the DSG deficit in the financial statements</li> </ul>	<p><b>2019-20 outturn</b></p> <ul style="list-style-type: none"> <li>The outturn position on the DSG reserve was a deficit of £19.9m. This was over £3m above the agreed plan for 2019-20, which was a planned £16.5m deficit.</li> <li>As part of our 2019-20 work, we conducted detail discussions with senior management on a regular basis regarding the DSG deficit position in order to understand the reasons behind the increase in the deficit.</li> <li>During recent years Rotherham has faced growing pressure on the High Needs Budget (HNB) which has resulted in year on year deficits. In 2015-16 the HNB in-year deficit was £1m, in the subsequent three years the annual HNB deficit has been £5m, with a further deficit in 2019-20 of £4.6m. This has been a major contributing factor in the reported DSG deficit reserve of £19.9m.</li> <li>The over spend is as a result of a number of factors; an increase in Education Health and Care Plans, increase in the number of over 16 young people with an Education Health and Care Plans (EHCP) who are now the responsibility of the LA to fund (potentially until they are age 25) and an increase in the number of young people accessing higher cost provision. The DSG deficit recovery plan is predominantly linked to resolving the budget pressures in the HNB.</li> <li>As part of the short term strategy to address the annual pressures, a disapplication request was submitted to the Secretary of State to transfer £2.9m from the Schools Block to the High Needs Block in 2020-21. This request was approved by Education and Skills Funding Agency (ESFA).</li> <li>The Government's spending review announced additional funding for schools and high needs. Compared to 2019-20 funding, this will rise by £2.6 billion for 2020-21, £4.8 billion for 2021-22 and £7.1 billion for 2022-23. In 2020/21 the £2.6 billion is split £1.9 billion to the Schools Block and £0.7 billion to the High Needs Block. For Rotherham this is an additional £6.2m for schools and £4.8m in the High Needs Block for the 2020-21 financial year. This will help the 2020-21 DSG budget and spending pressures to an extent.</li> <li>We have seen regular updates to the Audit Committee and the Cabinet on the DSG reserve and performance against the Council's plan throughout 2019-20. This was one of our key recommendations from our 2018-19 audit and it is pleasing to see this implemented</li> </ul>

# Value for Money conclusion

## Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
Dedicated School Grant (DSG) deficit position and recovery plan – continued	See page 16	<p><b>Updated Guidance for auditors from the NAO – September 2020:</b></p> <ul style="list-style-type: none"><li>The NAO in its regulatory role provides guidance for public sector auditors and details auditor's responsibilities in relation to the work required on the VFM conclusion. The latest NAO guidance, issued in September 2020, indicated the following (key messages) in respect of material deficit DGS reserves:</li><li>New regulations from 2020-21 mean that when setting budgets for 2020-21 onwards, material cumulative DSG deficits no longer have a direct impact on the general fund, as the DSG reserve cannot be funded from it without explicit permission from the Secretary of State. So, while the general fund position relative to the DSG deficit may be a concern as at 31 March 2020, it will not be a relevant consideration from 1 April 2020.</li><li>Therefore, the existence of a material negative DSG reserve (which is the case for Rotherham at £19.9m as at 31 March 2020) is of itself not relevant to the 2019-20 VFM arrangements conclusion in terms of arrangements for sustainable resource deployment over the medium term.</li><li>Instead, the NAO guidance notes the VFM arrangements conclusion considerations for DSG in 2019-20 should include a focus on the following and any other matters that the auditor deems relevant. Therefore we have assessed the Council's material DSG deficit against the four criteria set out by the NAO guidance. This forms the key part of our VFM conclusion on the Council's DSG deficit.</li></ul> <p><b>(1) Has the body demonstrated engagement with DfE in respect of its DSG deficit and what are the actions arising from these discussion?</b></p> <ul style="list-style-type: none"><li>Our work indicates that the Council continues to engage with the ESFA and discuss these matters. As indicated at page 22, actions are then reported to the Cabinet, Audit Committee and the School's forum on Council's plans to control the increasing deficit. The disapplication request which was discussed and agreed by the Secretary of State to transfer £2.9m from the Schools Block to the High Needs Block in 2020-21 was a result of these engagements. Our discussions with senior management and review of papers and associated discussions at Audit Committee also highlighted the commitment of management to address this issue.</li><li>This criteria is sufficiently met by the Council's arrangements.</li></ul>

# Value for Money conclusion

## Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
Dedicated School Grant (DSG) deficit position and recovery plan – continued	See page 16	<p><b>(2) Does the authority have a deficit recovery plan based on reasonable assumptions?</b></p> <ul style="list-style-type: none"><li>The latest recovery plan was produced and presented to the School's Forum in September 2020. The DSG deficit is currently forecasting to increase by £420k in 2020-21 leading to a forecast closing deficit of £20.3m for 2020-21. In headline terms, the current working assumption for 2020-21 is that if the Council is successful in securing a further 1.5% movement between blocks on disapplication in 2021-22, then the deficit forecast would reduce by around £1.5m in the following financial year (2021-22).</li><li>In terms of the HNB, where the deficit was £4.63m in 2019-20, there is a recovery plan to reduce this in the next three years with a deficit of £508k in 2020-21, a surplus of £781k in 21-22 and further surpluses in 22-23 and 23-24 years after Schools Block Transfers.</li><li>At this time last year, the Council was projecting a planned £16.5m DSG deficit as at 31 March 2020, however, actually delivered a £19.9m outturn - missing the target by £3.4m. Therefore there are some reservations in terms of meeting the NAO's criteria on this question, albeit the Council has continued to update the recovery plan based on its best assumptions.</li><li>This criteria is partially met by the Council's arrangements.</li></ul> <p><b>(3) Where deficits are continuing to grow, does the authority understand why? Is there evidence of a correlation between increasing demand and the rising costs?</b></p> <ul style="list-style-type: none"><li>There is a very clear understanding of why the deficit has grown over the last four years which is due to HNB demand. Review of the Council's reporting of this issue and our discussions with senior management indicates the Council has a very clear understanding why this has increased at Rotherham.</li><li>The Rotherham District has had historic and well publicised Child Sexual Exploitation cases, culminating in the Jay report and subsequent Operation Stovewood. Special needs children and child welfare is a key priority for the Council over the last five years and continues to be. We covered this area in detail in last year's VFM conclusion and is undoubtedly a factor in why significant costs within the HNB have occurred.</li></ul> <p><b>(4) Do Members fully understand the position, risks and actions being taken?</b></p> <ul style="list-style-type: none"><li>The Council's DSG deficit position has been a standard agenda item during our routine liaison meetings with senior management throughout 2019-20 and to date. These discussions have also indicated management has a sound understanding of the local issues, reasons behind HNB budget challenges and actions to be taken to reduce that.</li><li>Importantly, management has reported and updated the Cabinet and Audit Committee members throughout the 2019-20 year regarding the DSG deficit. As indicated in going concern section, there is monthly reporting to the Cabinet on budget monitoring and these financial performance reports include an item on the DSG deficit. In addition, the annual 2019-20 outturn report to the Cabinet, presented in July 2020, summarises DSG performance including the High Needs Block budget pressures and actions.</li><li>This criteria is sufficiently met by the Council's arrangements.</li></ul>

# Value for Money conclusion

## Value for Money Risks continued

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions (as reported in our Audit Findings Report (ISA 260) – November 2020)
Dedicated School Grant (DSG) deficit position and recovery plan – continued	See page 16	<p><b>Summary:</b></p> <ul style="list-style-type: none"><li>Before reaching our conclusion, it should be noted that the Council did not achieve its deficit DSG reduction plan set in July 2019 for 2019-20. As indicated, the overall deficit target was £16.5m as at 31 March 2020 but the actual deficit was £19.9m, missing the target by £3.4m. Were it not for the new guidance from the NAO issued in September 2020, our conclusion could have ultimately been somewhat different.</li><li>We acknowledge this is a ring fenced specific grant and it must be used in support of the schools budget as defined in the School and Early Years Finance (England) (No 2) Regulations 2018. In accordance with current Government policy, this deficit can be carried forward to be addressed in future years and only be used for schools budget and cannot be netted off against any other general fund reserves. (see Appendix C, page 30).</li><li>On the basis that three of the four NAO criteria are met and one partially met, we proposed a 'clean' unqualified VFM conclusion on this issue. Given the material deficit position of the DSG reserve, the audit team had to present our findings to the Firm's national VFM consistency Panel. The Panel considered our submission and agreed with our proposed conclusion on this issue.</li><li>Notwithstanding the unqualified VFM conclusion on the DSG deficit reserve, the Council should continue to ensure the revised DSG plans:<ul style="list-style-type: none"><li>- continue to be closely monitored</li><li>- prompt action is taken on any variations from plan, particularly in respect of any changes to the financial performance of the HNB</li><li>- regular engagement with DfE is maintained along with the ESFA and the schools forum</li><li>- are regularly reported to Cabinet, Audit and Scrutiny committees as appropriate, ensuring Members are kept informed of key developments on reducing the material DSG deficit.</li></ul></li></ul> <p><b>Conclusion</b></p> <p>The Council did not achieve its deficit reduction plan set in July 2019 for 2019-20. The overall deficit target was £16.5m as at 31 March 2020 but the actual deficit was £19.9m, missing the target by £3.4m.</p> <p>However, the NAO issued further guidance to public sector auditors in September 2020, when considering material DSG deficits.</p> <p>Having considered the NAO guidance covering the four criteria specified, our view was that our VFM conclusion should be unqualified in relation to the DSG deficit as at 31 March 2020.</p>

# A. Reports issued and fees

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

## Reports issued

Report	Date issued
Audit Plan	January 2020
Audit Findings (ISA260) Report	November 2020
Annual Audit Letter	January 2021

## Fees 2019-20

	Planned fees £	Actual fees £	2018-19 Actual fees £	2017-18 Actual fees KPMG £
PSAA scale fee	108,438	108,438	108,438	140,828
Audit fee variations (see page 21)	*20,850	**40,000	9,000	-
<b>Total proposed fees</b>	<b>129,288</b>	<b>148,438</b>	<b>117,438</b>	<b>140,828</b>

## Audit fee variation

As outlined in our audit plan, the 2019-20 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 work. This was reported in our Audit Plan dated 24 January 2020 and has been updated to reflect the actual outturn as summarised on page 21 of this report.

## Audit fee variation – continued

Our Audit Plan included a fee variation for £22,850 to take into account the additional audit work to be performed in relation to PPE, pensions and key areas of estimate and judgement. Over the past ten months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019-20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. We included an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values and the Council's proportion of investment properties from the South Yorkshire Pension Fund.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260. In addition, our work on the DSG deficit as a significant VFM risk (reported at pages 16-19) included a considerable amount of additional work than originally planned, including two presentations to our national VFM panel, before we reached our conclusion.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines also being extended by 4 months and NHS deadlines by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached <https://www.frc.org.uk/covid-19-guidance-and-advice> (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the S151 Officer, noting an expected variation of 15% of the above planned fee, taking the proposed fee to £148,438. Please note that all proposed additional fee variations are subject to approval by PSAA in line with the Terms of Appointment.

# A. Reports issued and fees – continued

Area	Reason	Planned variation £	Actual variation £
<b>Pensions – IAS 19</b>	<p>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.</p> <p>Our work increased in this area during the audit as we considered the impact of:</p> <ul style="list-style-type: none"> <li>• The McCloud and Goodwin judgements</li> <li>• The change in valuation from 31 January to 31 March</li> <li>• The findings arising from the Pension Fund auditor and the impact of this on our audit</li> <li>• Meetings with the Actuary to discuss their valuations</li> </ul> <p>This culminated in an emphasis of matter in our audit opinion in relation to the valuation of the Council's share of the SYPF investment properties.</p>	3,500	10,000
<b>PPE Valuation – work of experts</b>	<p>As above, the Financial Reporting Council has highlighted that auditors need to improve the quality of work on PPE valuations across the sector. We increased the volume and scope of our audit work to reflect this including the use of a valuation expert. This culminated in an emphasis of matter in our audit opinion in relation to the valuation of the Council's land and buildings as a result of the impact of Covid.</p>	9,350	15,000
<b>Increased challenge and depth of work on accounts and VFM conclusion</b>	<p>To meet the higher threshold set by the FRC, we have undertaken additional work and challenge in the following areas, including:</p> <ul style="list-style-type: none"> <li>• information provided by the entity (IPE) (increased risk given challenges of remote working)</li> <li>• journals</li> <li>• management review of controls</li> <li>• accounting estimates</li> <li>• going concern</li> <li>• related parties and similar areas</li> <li>• detailed financial resilience review as part of our VFM work.</li> <li>• detailed work was performed on the DSG deficit to inform our VFM conclusion, including a number of meetings with the Council and internal deliberations at a senior level within Grant Thornton</li> </ul>	5,000	10,000
<b>Reduction in Materiality</b>	<p>A reduction in materiality from 1.8% of the benchmark (gross expenditure in cost of services) to 1.5% - reflecting additional areas to audit and sample testing requirements, resulting from a lower level of materiality and a greater level of scrutiny and assurance</p>	3,000	3,000
<b>Covid-19</b>	<p>Additional staffing costs associated with the impact of Covid-19 amounted to some £10,000 but we have absorbed 80% of this and propose an additional £2,000.</p>	0	2,000
<b>Overall fee variation</b>	<b>See table on page 20</b>	<b>*20,850</b>	<b>**40,000</b>

# A. Reports issued and fees - continued

Non-audit fees for other services	Fee £
<b>Audit Related Services:</b>	
Housing Benefit Subsidy return 2019-20 **	19,000 [TBC work ongoing]
s14 Children and Young People Grant from DfE – expenditure certification	5,000 (agreed and completed)
DfT grant on Local Transport Plan Major Project	4,000 [TBC work ongoing]
<b>Non-Audit Related Services:</b>	
None	-

## NOTE:

*\*\* The £19,000 is the base fee for Housing Benefit Subsidy certification. For each 40+ testing workbook undertaken:*

*£2,200 – where the work is completed by the Council and re-performed by Grant Thornton*

*£4,400 – where the work is undertaken by Grant Thornton*

## 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 table alongside summarises all non-audit services which were identified.
- We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

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