Rotherham Metropolitan Borough Council 2020-21 Audit Plan

Year ending 31 March 2021

20 July 2021

Contents

Your key Grant Thornton team members are:

Gareth Mills
Key Audit Partner & Engagement Lead
T 0113 200 2535
E gareth.mills@uk.gt.com

Thilina De Zoysa
Engagement Manager
T 0113 200 1589
E thilina.de.zoysa@uk.gt.com

Greg Charnley
Engagement Assistant Manager
T 0113 200 2558
E greg.f.charnley@uk.gt.com

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. 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. Key matters

Factors

Covid-19 and Council financial developments

The Covid-19 pandemic has had a considerable impact on the Council. Given the pandemic only started to impact from mid-March 2020, the additional costs did not have a significant impact on 2019-20, when the Council delivered a balanced budget that required only £1.2m of corporate reserves out of initially budgeted requirement of £3.2m.

However, the scale of impact has been felt fully during 2020-21. There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services, lost income through reduced trading activity and some temporary cessation of services. In addition, some businesses in Rotherham closed their operations and some businesses furloughed staff. Throughout the on-going pandemic, the Council has continued to receive Central Government funding to support its services as well as support for businesses operating within the Rotherham area.

The Revenue Budget for 2020-21 was approved by Council on 26 February 2020. A budget of £233.3m was set for General Fund services. According to the final outturn reported to the Cabinet on 19 July 2021, the Council had a final underspend against revenue budget of £6.1m, following mitigating actions taken to manage the financial impacts of Covid-19. This incorporates the late receipt of £2m of Government support towards costs associated with Operation Stovewood and after a proposed transfer of £2m to create a new Children and Young Peoples Services Social Care Reserve.

The mitigating actions included the application of Government emergency funding of £18.9m to support the Covid-19 response and cost implications of this, the submission of compensation claims totalling £4.8m relating to the adverse impact of Covid on sales, fees and charges income and the use in 2020-21 of £5.2m from the Control Outbreak Management Fund (COMF). Without the provision of these grant funding streams the Council's general fund financial outturn would have been a £22.8m overspend.

For 2021-22, the Council set a balanced gross revenue budget of £235.7m. Detailed 2021-22 budget plans including assumptions were presented and approved by the Council in March 2021. To achieve this balanced budget, the Council will need to deliver savings of £5.65m during 2021-22.

Adoption of new auditing standards - Estimates

ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures, which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. As we explain in more detail in Section Four of this Plan, this will require greater disclosure by the Council as well as additional work by the auditor.

Financial Reporting and Audit – raising the quality bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing.

We have also identified an increase in the complexity of financial transactions in the sector which require greater audit scrutiny.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been acknowledged by the S151 Officer.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with updates via our Audit Committee updates.
- The revisions to the standard have been incorporated into our audit approach and methodology. We have identified the material accounting estimates likely to be impacted by the new auditing standard and will work with management to agree the information required.
- At this time we have not identified a specific Covid-19 significant audit risk (as we did for all Local Government audits in 2019-20 which covered a number of risks including the availability of the entity's staff to produce accounts, valuation uncertainties in relation to land and buildings). We will revisit this assessment should the current pressures the sector faces continue and impact year-end accounting and auditing processes.

2. Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Rotherham Metropolitan Borough Council ('the Council') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the agreed *Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Rotherham Metropolitan Borough Council. We draw* your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the:

- Council's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit committee); and
- Value for Money arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources.

The audit of the financial statements does not relieve management or the Audit Committee of your responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Council is fulfilling these responsibilities.

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

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- Management over-ride of controls
- Valuation of land and buildings, including investment properties
- Valuation of the net pension fund liability.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We have determined planning materiality to be £8.75m (PY £9m) which equates to 1.5% of your gross expenditure for cost of services for 2019-20. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £437,500 (PY £450,000).

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money have identified the following risk of significant weakness:

- The plans the Council has to reduce the overspends against its Dedicated Schools Grant and to recover the cumulative deficit.

There are no other significant weaknesses at this time. We will keep our VFM assessment under review as our audit progresses.

Audit logistics

Our planning work for 2020-21 commenced in February 2021 and will be completed along with our interim audit during July. Our final accounts audit will take place from August to November 2021. Our key deliverables are this Audit Plan, our Audit Findings Report and the Auditor's Annual Report on our VFM work. Revisions and updates to certain ISA(UK) which are applicable to 2020-21 audit and beyond are reported at Appendix A.

Our fee for the audit will be £183,938 (PY: £148,438) for the Council, subject to the Council delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on your financial statements.

3. Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	**Revenue** 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 ISA240 and the nature of the revenue streams at the Authority, 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 at Rotherham Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable. **Expenditure** Whilst not a presumed significant risk we have had regard to Practice Note 10 (Audit of financial statements and regularity of public sector bodies in the United Kingdom) Having considered the nature of the expenditure streams at the Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because: • there is little incentive to manipulate expenditure for a Council where services are provided to the public through taxpayers funds • there is no significant pressures on general fund reserves of the Council • Covid -19 funding has been sufficiently provided for additional expenditure and loss of income during 2020-21	Notwithstanding that we have rebutted these risks we will still undertake a significant level of work on the Council's revenue streams, as they are material to the financial statements audit. We will: <u>Accounting policies and systems</u> • Evaluate the Council's accounting policies for recognition of income and expenditure for it's material income and expenditure streams and compliance with CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income and expenditure. <u>Fees, Charges and other service income</u> • Agree, on a sample basis, income and year end receivables from other income supporting evidence. <u>Taxation and non specific grant income</u> • Income for national non –domestic rates and council tax is predictable and therefore we would conduct substantive analytical procedures • For other grants we will sample test items for supporting evidence and check the appropriateness of the accounting treatment in line with CIFA Code. <u>Expenditure</u> • Agree, on a sample basis, non pay expenditure and year end payables to supporting evidence • Undertake detail substantive analytical procedures on pay expenditure. We will also design and carry out appropriate audit procedures to ascertain that recognition of income and expenditure is in the correct accounting period (e.g. using cut off testing).

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
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 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.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings, including investment properties	The Council re-values its land and buildings (other than investment properties) 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 (over £900 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Authority'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. All investment properties (over £30m) should be valued as at fair value in line with LG Code guidance. Again, this valuation represents a significant estimate by management in the financial statements We therefore identified the closing valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own auditor's expert valuer to assess the instructions issued to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Authority's asset register • evaluate 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 • evaluate the assumptions made by management and the management expert when valuing investment properties at fair value as at 31 March 2021 • consider, where the valuation date is not 31 March 2021 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate as at 31 March 2021.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	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. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (c£450m) and the sensitivity of the estimate to changes in key assumptions. 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.	We will: • update 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 evaluate the design of the associated controls • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • test 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 • undertake 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 • obtain 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.

4. Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures which* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

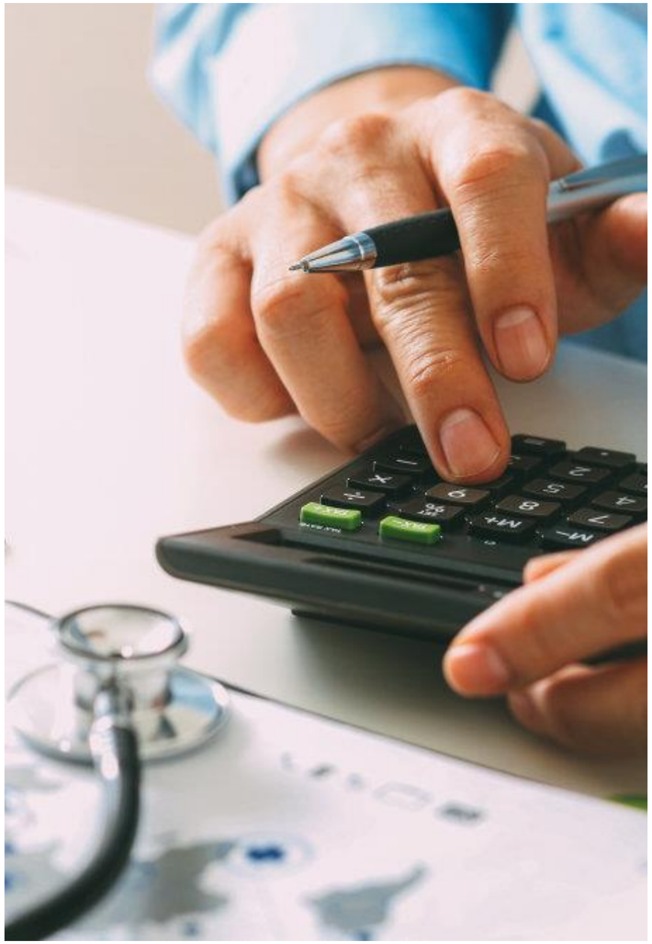
Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically the auditor may obtain an understanding of whether those charged with governance:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates.



Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021.

Based on our knowledge of the Council we have currently identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings, council dwellings and investment properties
- Depreciation
- Year end material provisions and accruals
- Credit loss and impairment allowances (as material)
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Valuation of level 2 and level 3 investments.
- Liabilities under PFI schemes

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations and pensions liabilities. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Estimation uncertainty

Under ISA (UK) 540 we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative, methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to detail:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainly is unresolved.

Planning enquiries

As part of our planning risk assessment procedures, we are planning to send letters of enquiry to management by 31 July. We recommend management responses are considered by the Audit Committee Chair and management's response is sent to us in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540_Revised-December-2018_final.pdf

5. Other matters

Other work

In addition to our responsibilities under the Code of Practice, we have a number of other audit responsibilities, as follows:

- We read your Narrative Report and Annual Governance Statement to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2020-21 financial statements, consider and decide upon any objections received in relation to the 2020-21 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to obtain sufficient appropriate audit evidence regarding, and conclude on:

- whether a material uncertainty related to going concern exists; and
- the appropriateness of management's use of the going concern basis of accounting in the preparation of the financial statements.

The Public Audit Forum has been designated by the Financial Reporting Council as a "SORP-making body" for the purposes of maintaining and updating Practice Note 10: Audit of financial statements and regularity of public sector bodies in the United Kingdom (PN 10). It is intended that auditors of public sector bodies read PN 10 in conjunction with (ISAs) (UK).

PN 10 has recently been updated to take account of revisions to ISAs (UK), including ISA (UK) 570 on going concern. The revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. Applying such an approach should enable us to increase our focus on wider financial resilience (as part of our VFM work) and ensure that our work on going concern is proportionate for public sector bodies. We will review the Council's arrangements for securing financial sustainability as part of our Value for Money work and provide a commentary on this in our Auditor's Annual Report.

6. Progress against prior year audit recommendations

We identified the following issues in our 2019-20 audit of the Council's financial statements and VFM conclusion work which resulted in the recommendations being reported in our 2019-20 Audit Findings Report. The progress made as of July 2021 against those recommendations is reported below

Assessment	Issue and risk reported in our 2019-20 Audit Findings Report (November 2020)	Recommendations
High	**1. DSG deficit reduction plan 2020-21 and beyond** Our work identified 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 £3.5m. This is a material DSG deficit. If not for new guidance from the NAO issued in September 2020, our overall VFM conclusion reached on page 22 could have been different on this material DSG deficit as at 31 March 2020. We acknowledge that 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. 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.	• Notwithstanding the unqualified VFM conclusion on the DSG deficit reserve, the Council should continue to ensure the revised DSG plans: - continue to be closely monitored - prompt action is taken on any variations from plan, particularly in respect of any changes to the financial performance of the HNB - regular engagement with DfE is maintained along with the ESFA and the schools forum - 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. **Management response (November 2020):** The Council maintains regular engagement with the ESFA and the Schools Forum with regard to DSG plans. Regular reporting is provided to Cabinet, through Financial Monitoring Reports. Audit Committee and Overview and Scrutiny Committee are also kept informed through specific reports providing updates on the DSG position and plans. This approach to engagement and reporting will continue to be maintained. **Management Response (July 2021) :** Regular engagement is maintained as outlined in the response to the recommendation. The Council received formal notification from the ESFA in February 2021 of Ministerial approval to the Council's disapplication request to move 1.5% of DSG funding (£3m) from the schools block to the high needs block. The Council expects DSG to outturn within overall budget in 2021/22. An update on the Council's DSG deficit recovery plan is being finalised for issue to ESFA by the end of July 2021.

6. Progress against prior year audit recommendations (continued)

Assessment	Issue and risk reported in our 2019-20 Audit Findings Report (November 2020)	Recommendations
● Medium	2. Financial impact on Covid-19, budget monitoring 2020-21 and beyond: There have been significant financial challenges as the Council responded to the Covid-19 pandemic through additional costs to support operational services and lost income through reduced activities. In the Q2 budget monitoring report for 2020-21, the Council is already estimating a net overall impact of Covid-19 for 2020-21 to be £2.3m, after government funding including loss of income compensation. The updated MTFS covering 2021-22 and 2022-2023 indicates a balanced budget for 2021-22 but the 2022-2023 plan has a gap of £7.6m. As the sector and the country recover from the Covid-19 pandemic in 2020-21, the Council's major challenges in managing its costs in demand led services are likely to remain. In common with a number of other local authorities, delivering a balanced budget and maintaining a level of adequate reserves will remain a key challenge.	We recommend the Council continues to update its budget setting and budget projections as the challenges and impact from Covid develop. Officers should continue to report in a regular and transparent manner to Members in terms of any corrective actions required in delivering the budget, the impact of Covid on costs and income, achieving the required savings and in terms of liaising with MHCLG and other government departments. The Council should consider the adequacy of its reserves going forward and the appropriate level of balances which should be linked to the approved MTFS and which should be reviewed each year. Management response (November 2021) Regular reporting on the budget is provided through financial monitoring reports to Cabinet. These reports have clearly identified the impact of Covid on the Council's finances. An interim update of the Medium Term Financial Strategy has been submitted to November Cabinet and will be refined further once the Local Government Finance Settlement for 2021/22 is released. The Council's reserves strategy is an integral part of the overall budget and financial strategy. Development of these strategies has included strengthening the Council's level of uncommitted reserves. Subject to the anticipated balanced financial outturn being achieved for 2020/21, the General Fund Minimum Balance Reserve will be £25m at the end of March 2021, increased from a balance of just over £11m at the end of March 2018. Management Response (July 2021) : The Council's Financial Outturn report for 2020/21 was submitted to Cabinet on 19th July 2021. The report confirms that the General Fund Minimum Balance was increased to £25m as planned for. The report also confirms that the Council was able to manage the impact of Covid in 2021/22 through a range of mitigations including a prudent approach to redeployment of resources in response to the pandemic and by use of the Government's provision of emergency Covid funding support. The overall financial outturn position for the Council for 2020/21 was an underspend of £6.1m which has been placed into reserves, to support ongoing Covid response and future years budgets. The report acknowledges that it remains complex to forecast forward the continuing financial impact of the pandemic throughout 2021/22

7. Materiality

The concept of materiality

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. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure in cost of services of the Council for 2019-20. In the prior year we used the same benchmark which is gross expenditure in cost of services. Materiality at the planning stage of our audit is £8,750,000 (PY £9,000,000), which equates to 1.5% of your gross expenditure in cost of services for the prior year.

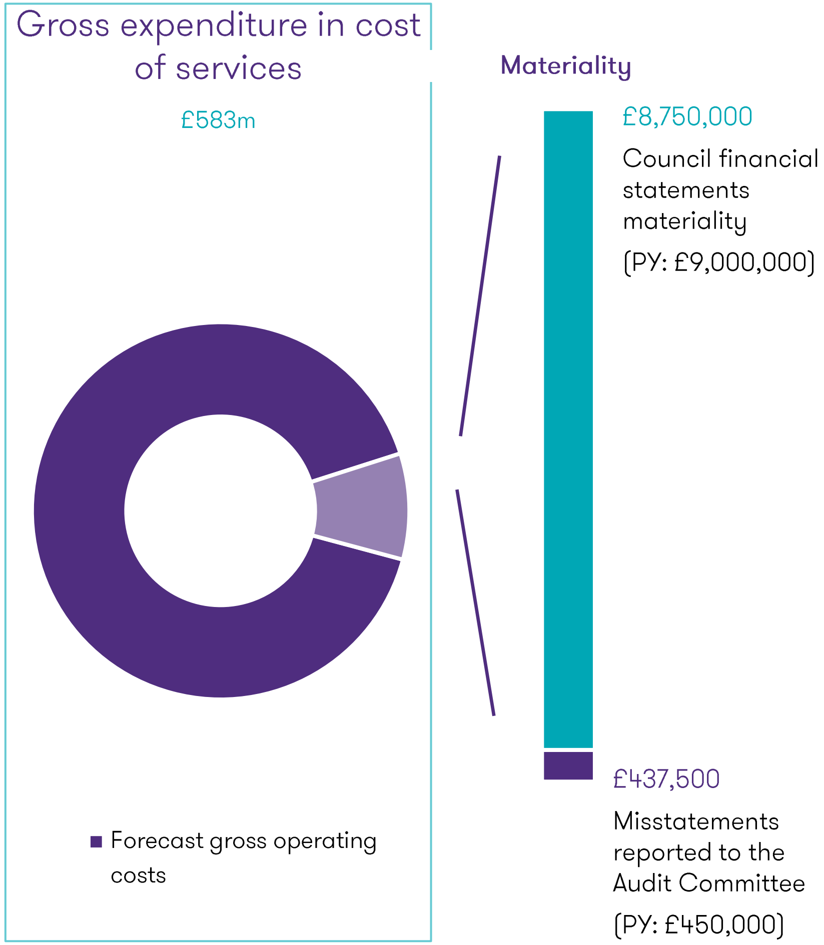
We design our procedures to detect errors in specific accounts at a lower level of precision which we have determined to be £15,000 for senior officer remuneration due to sensitive nature of such disclosures to the public.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £437,500 (PY £450,000).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.



8. Value for Money arrangements

Revised approach to Value for Money work for 2020-21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020-21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years).

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information.

9. Risks of significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. The risks we have identified are detailed in the first table below, along with the further procedures we will perform. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the right hand column below.

Risks of significant weakness

These would be risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the body to deliver value for money.

At this stage of our audit work we have identified one significant weakness:

1. Dedicated Schools Grant (DSG) deficit position and recovery plan:

Over the past two years we have reviewed and monitored the Council's DGS performance and the increasing deficit position. The outturn position on the DSG reserve as at 31 March 2020 was a deficit of £19.9m. This was over £3m above the agreed plan for 2019-20, which was a planned £16.5m deficit. Latest discussions with management indicate a reduced in-year deficit of £1.9m as at 31 March 2021, however, this has increased the overall deficit position to £21.8m.

We are aware the Council continues to hold regular discussions with the Education and Skills Funding Agency (ESFA), regarding the challenges of the High Needs Block. In addition, we note the discussions of the DSG position at Cabinet and Audit Committee, helping to ensure Members are kept informed of the latest developments in this area.

The new regulations from the DfE mandate that a DSG deficit may only be funded and recovered through DfE financial support and recovery arrangements. The Government's intention is that DSG deficits should not be covered from general funds but that over time they should be recovered from DSG income. We will review the plans the Council has to reduce the annual expenditure in this area and, ultimately, to recover the cumulative overspend.

Under the new VFM arrangements we will be considering the Authority's arrangements in place across the three criteria areas of finance, governance and performance. To be clear, this represents a more detailed level of audit work required under the new VFM Code than previously. We will be commenting on the Authority's arrangements across the three criteria in our Auditor's Annual Report – again a new requirement for this year.

We will consider the Authority's financial outturn position for 2020-21 and its planned position for 2021-22 and beyond. We will keep the possibility of a significant weakness arising and/or an existing risk increasing to a significant weakness as part of our ongoing 2020-21 VFM review.

Our findings will be summarised in the Auditor's Annual Report, to be agreed with management later this year. The NAO has set out that the Auditor's Annual Report, detailing our findings from our VFM work, should be issued within three months of the audit opinion in 2020-21, which is reflected in the timeline on the following page.

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

10. Audit logistics and team

Gareth Mills, Key Audit Partner & Engagement Lead - Gareth leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Authority.

Thilina De Zoysa, Engagement Manager - Thilina plans, manages and leads the delivery of the audit, is your key point of contact for your finance team and is your first point of contact for discussing any issues.

Greg Charnley, Engagement Assistant Manager – Greg assists in planning, managing and delivering the audit fieldwork, ensuring that the audit is delivered effectively and efficiently. They supervise and co-ordinate the audit team.

Members of the Audit Committee will be familiar from previous discussions regarding the challenging nature of the availability of specialist public sector external audit staff, and the volume of local authority audits which continued after last year's target date of completion of 30 November 2020. This background coupled with the impact of Covid-19 remote working and the need to prioritise our NHS clients given their earlier audit deadline of June 2021, means that we are behind in our local authority planning and interim work compared to our normal timings and profile of delivery.

We have noted that MHCLG has set a date of 30 September 2021 for audited local authority accounts. Given the context set out above, we believe this is highly unrealistic for 2020-21 audits (but as a firm we are fully supportive of this in a 'normal' year). We are proposing to target completing our audit fieldwork on your accounts in October before signing off your accounts in November. There are no financial or reputational issues arising from having your accounts signed after the 30 September.

Audited body responsibilities

Where audited bodies do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other audits. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the agreed timetable you have agreed with us, including all notes, the Narrative Report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

11. Audit fees

In 2017, PSAA awarded a contract of audit for the Council to begin with effect from 2018-19. The fee agreed in the contract was £108,438. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2020-21 audit.

As referred to on page 15, the 2020-21 Code introduces a revised approach to our VFM work. This requires auditors to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach. Auditors now have to make far more sophisticated judgements on performance, as well as issue key recommendations if any significant weaknesses in arrangements are identified during the audit. We will be working with the NAO and other audit firms to discuss and share learning in respect of common issues arising across the sector.

The new approach will be more challenging for audited bodies, involving discussions at a wider and more strategic level. Both the reporting, and the planning and risk assessment which underpins it, will require more audit time, delivered through a richer skill mix than in previous years. Our estimate is that for your audit, this will result in an increased fee. This is in line with increases we are proposing at all our local audits.

Additionally, across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as noted in the number of revised ISA's issued by the FRC that are applicable to audits of financial statements commencing on or after 15 December 2019, as detailed at Appendix A.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our proposed work and fee for 2020-21, as set out below, is detailed overleaf and has been discussed with the S151 Officer. Our estimate is that for your audit, the above changes and developments will result in an increased fee of £75,500. This is in line with increases we are proposing at all our local authority audits.

	Actual Fee 2017-18 (KPMG) £	**Actual Fee 2018-19 £**	**Actual Fee 2019-20 £**	**Proposed Fee 2020-21 £**
Rotherham MBC Council Audit – PSAA Scale fee	140,828	108,438	108,438	108,438
Fee uplift	-	9,000	40,000	75,500
Total audit fees (excluding VAT)	**140,828**	**117,438**	**148,438**	**183,938**

Assumptions

In setting the above fees, we have assumed that the Council will:

- prepare a good quality set of accounts, supported by comprehensive and well presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard (revised 2019) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Audit fees – detailed analysis

Scale fee published by PSAA	£108,438
Ongoing increases to scale fee first identified in 2019-20:	
Raising the bar/regulatory factors and VFM (mainly DSG deficit)	£10,000
Enhanced audit procedures for Property, Plant and Equipment	£15,000
Enhanced audit procedures for Pensions	£10,000
Additional testing due to lower materiality	£3,000
Covid-19	£2,000
Audit fee 2019-20:	**£148,438**
New issues for 2020-21:	
Additional work on Value for Money (VFM) under new NAO Code	£20,500
Increased audit requirements of revised ISAs	£15,000
Local risk factors	-
Proposed increase to agreed 2019-20 fee:	£35,500
Total 2020-21 audit fees (excluding VAT):	£183,938

12. Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 (Revised 2019) 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 May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council.

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services (currently none) to be undertaken or 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 report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related:			
Certification of Housing Benefit [See note below]	22,800*	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 £22,800 in comparison to the total fee for the audit of £183,938 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.
Responding to Elector correspondence	4,000	-	We received four items of correspondence from local electors in the early part of 2021. Two of the items of correspondence required a level of detailed work by the Engagement Lead, liaising with senior management at the Council, in order to respond to the questions raised.
Non-audit related:			
None	-	-	-

NOTE:

* The £22,800 is the base fee for the 2020-21 Housing Benefit Subsidy certification. In addition, for each 40+ HB testing undertaken:

£2,255 – where the initial work is completed by the Council

£5,040 – where the work is fully undertaken by Grant Thornton

We are not aware of any other 2020-21 grants requiring certification by us as at the date of this Audit Plan.

Appendix A: Revised Auditor Standards and application guidance

FRC revisions to Auditor Standards and associated application guidance

The following Auditing Standards and associated application guidance that were applicable to 2019-20 audits, have been revised or updated by the FRC, with additional requirements for auditors for implementation in 2020-21 audits and beyond.

	Date of revision	Application to 2020-21 Audits
ISQC (UK) 1 – Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and other Assurance and Related Service Engagements	November 2019	✓
ISA (UK) 200 – Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (UK)	January 2020	✓
ISA (UK) 220 – Quality Control for an Audit of Financial Statements	November 2019	✓
ISA (UK) 230 – Audit Documentation	January 2020	✓
ISA (UK) 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements	January 2020	✓
ISA (UK) 250 Section A – Consideration of Laws and Regulations in an Audit of Financial Statements	November 2019	✓
ISA (UK) 250 Section B – The Auditor's Statutory Right and Duty to Report to Regulators od Public Interest Entities and Regulators of Other Entities in the Financial Sector	November 2019	✓

Appendix A: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020-21 Audits
ISA (UK) 260 – Communication With Those Charged With Governance	January 2020	✓
ISA (UK) 315 – Identifying and Assessing the Risks of Material Misstatement Through Understanding of the Entity and Its Environment	July 2020	
ISA (UK) 500 – Audit Evidence	January 2020	✓
ISA (UK) 540 – Auditing Accounting Estimates and Related Disclosures	December 2018	✓
ISA (UK) 570 – Going Concern	September 2019	✓
ISA (UK) 580 – Written Representations	January 2020	✓
ISA (UK) 600 - Special considerations – Audits of Group Financial Statements (Including the Work of Component Auditors)	November 2019	✓
ISA (UK) 620 – Using the Work of an Auditor's Expert	November 2019	✓
ISA (UK) 700 – Forming an Opinion and Reporting on Financial Statements	January 2020	✓

Appendix A: Revised Auditor Standards and application guidance continued

	Date of revision	Application to 2020-21 Audits
ISA (UK) 701 – Communicating Key Audit Matters in the Independent Auditor's Report	January 2020	✓
ISA (UK) 720 – The Auditor's Responsibilities Relating to Other Information	November 2019	✓
Practice Note 10: Audit of Financial Statements of Public Sector Bodies in the United Kingdom	December 2020	✓

Grant Thornton