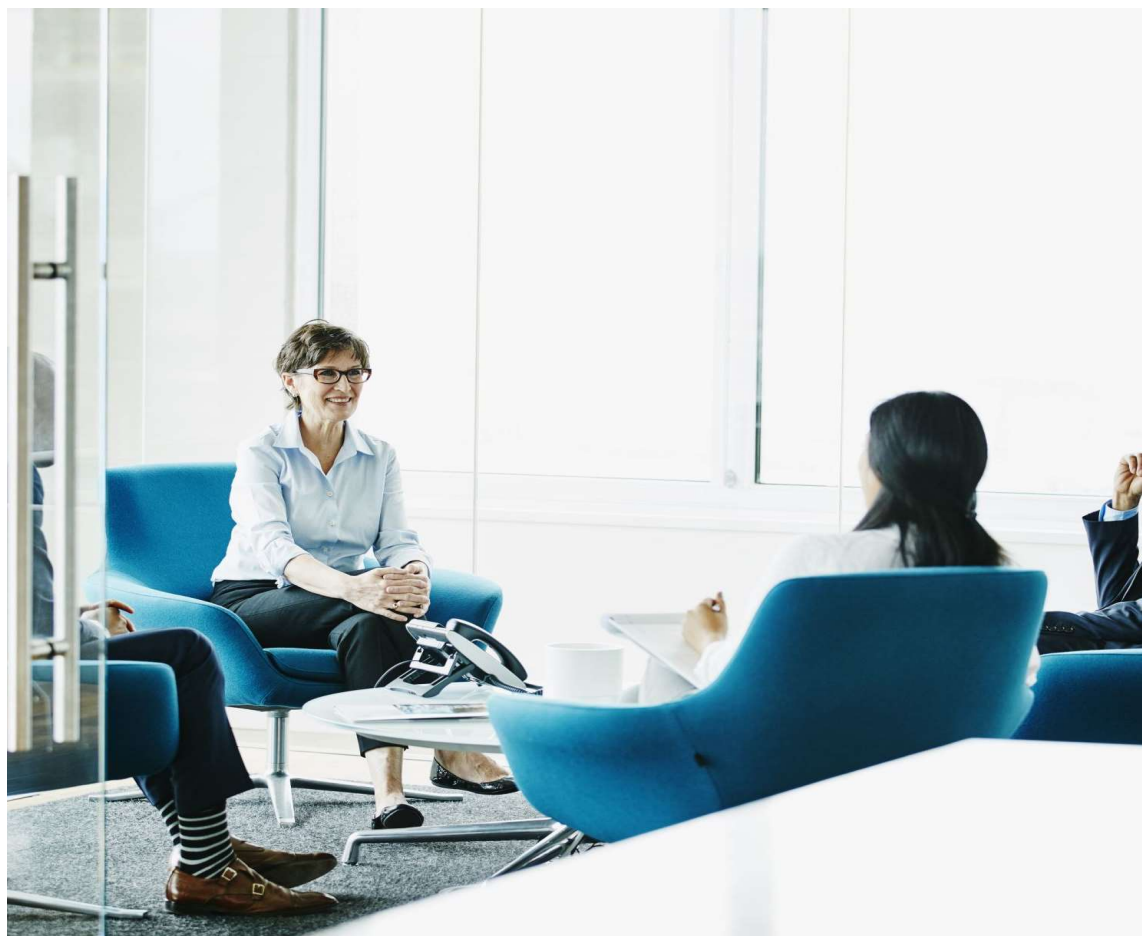


The Audit Findings (ISA260) Report for Rotherham Metropolitan Borough Council

Year ended 31 March 2021

23 November 2021



Contents



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This Audit Findings (ISA260) Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents will be discussed with management and the Audit Committee.

Gareth D Mills

Name : Gareth Mills, Engagement Lead for Rotherham MBC
For Grant Thornton UK LLP
Date : 23 November 2021

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.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rotherham Metropolitan Borough Council ('the Council') and Council's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Council's financial statements give a true and fair view of the financial position of the Council and the Council's income and expenditure for the year
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our year-end audit work was performed from August into November. Our findings are summarised in Section Two of this report. As at the date of this report, we have not identified any audit adjustments impacting on the Council's useable reserves. As reported by management at the September Audit Committee, there has been one material adjustment to the draft financial statements in relation to the Pension fund liability.

There has been a decrease in the Council's net pension fund liability by c£20.3m to reflect the actual pension asset valuations as at 31 March 2021, replacing the provisional valuation included within the draft Statement of Accounts.

A list of presentational audit adjustments are detailed at Appendix C. We have raised some recommendations for management as a result of our work in the Action Plan at Appendix A. Our follow up of recommendations from the prior year are detailed at Appendix B.

Our work is nearing completion in advance of our target sign off date of the end of November. At present, there are no matters of which we are aware that would require modification of our proposed audit opinion (Appendix E) or material changes to the financial statements, subject to the following outstanding matters:

- completing the remaining few elements of our work on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, financial instruments, journals, grant income, operating expenditure
- receiving a response to our inquiries made in July 2021 around informing the risk assessment including the fraud risk assessment (we expect management to present this to the Audit Committee on 30 November)
- completion of our internal quality review processes, including final reviews of the file by both the Engagement Manager and Engagement Lead, specifically in respect of significant audit risks of PPE valuation, pension fund liability and journals testing
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.

We have concluded that the other information to be published together with the audited financial statements is consistent with our knowledge of the Council and the financial statements we have audited, subject to satisfactory completion of our review of the final Narrative Report and AGS.

We plan to issue an unqualified (clean) audit opinion by 30 November 2021.

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the Council's arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness
- Financial sustainability
- Governance.

We have not yet completed all of our VFM work and are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to the Chair of the Audit Committee in September and is attached at Appendix F to this report. We expect to issue our Auditor's Annual Report before end of February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report (AAR) to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. As a result we identified one possible risk of significant weakness in relation to Dedicated Schools Grant (DSG) deficit position which was £21.3m as of 31 March 2021 and the Council's linked recovery plan. We reported this to you in our Audit Plan which was presented to the Audit Committee on 29 July 2021.

We have performed further procedures in respect of this risk of significant weakness in Section Three of this report. Based on our work performed to date, considering the Council's arrangements in place, actions being taken to address the deficit, and the Council's engagement with relevant key stakeholders, we have concluded that there is no residual risk of significant weakness at the time of our financial statement audit opinion date. Further work on this matter and reporting will be captured in our AAR which is due to be finalised before the end of February 2022.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audit.

We have not exercised any of our additional statutory powers or duties

We expect to certify the completion of the audit upon the completion of our work on the Council's VFM arrangements, and our review of the Council's Whole of Government Accounts (WGA) submission. We expect to conclude our work in these two areas and be in a position to issue our audit certificate by the end of February 2022.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and collaboration provided by the finance team and other staff during our audit which was again conducted in challenging circumstances and remotely, as in the prior year.

2. Financial Statements

Overview of the scope of our audit

This Audit Findings (ISA260) Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents will be discussed with management, Audit Committee (as those charged with governance).

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

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

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

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries being resolved, we anticipate issuing an unqualified (clean) audit opinion by 30 November 2021. These outstanding items include:

- completing the remaining few elements of our work on PPE, pension fund assets and liabilities, payables and receivables, payroll costs, financial instruments, Journals, grant income, operating expenditure
- receiving a response to our inquiries made in July 2021 around informing the risk assessment including the fraud risk assessment
- completion of our internal quality review processes, including final reviews of the file by both the Engagement Manager and Engagement Lead, specifically in respect of the significant audit risks of PPE revaluations, pension fund liability and journals testing
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation
- updating our post balance sheet events review, to the date of signing the opinion.



Our approach to materiality

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

Materiality levels remain the same as reported in our Audit Plan dated 20 July 2021.

We detail in the table our determination of materiality for the Council.

Materiality area	Amount (£000)	Qualitative factors considered
Materiality for the financial statements	8,750	We have determined materiality at 1.5% of gross operating expenditure for the year. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget. There are no changes to this threshold or benchmark to that set out in our Audit Plan dated 20 July 2021.
Performance materiality	6,125	Assessed to be 70% of financial statement materiality.
Trivial matters	437	This equates to 5% of materiality. This is our reporting threshold to the Audit Committee for any errors identified.
Materiality for senior officer remuneration disclosures	15	The senior officer remuneration disclosures in the Financial Statements have been identified as an area requiring specific materiality due to its sensitive nature. There are no changes to this threshold from our Audit Plan dated 20 July 2021.

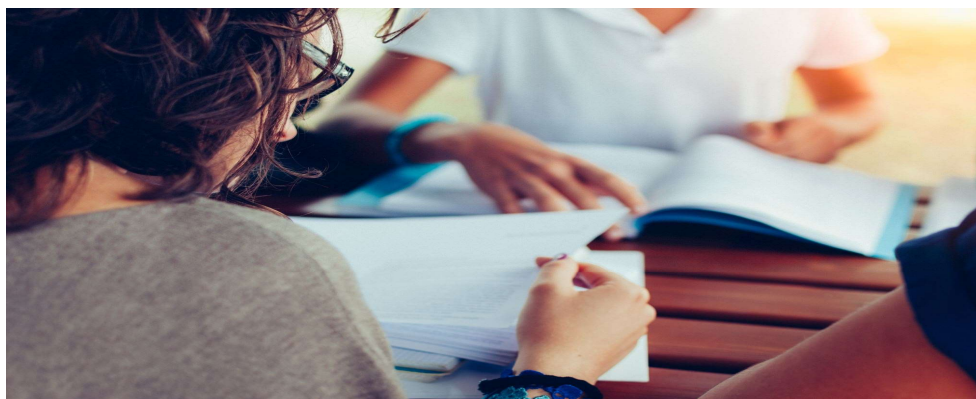


2. Financial Statements - Significant risks

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.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
<p>Management override of controls</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 Council 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 audit work, we have</p> <ul style="list-style-type: none"> • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determine the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions as relevant <p>Our audit work to date has not identified any issues in respect of management override of controls. We will provide a verbal update to the Audit Committee on 30 November should any significant issues arise from completing our work in this area and issuing our audit opinion.</p>



Financial Statements - Significant risks

Risks identified in our Audit Plan

Risk of fraud in revenue recognition and expenditure

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 the 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 Council, 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.

Commentary

Notwithstanding that we have rebutted these risks we have undertaken a significant level of work on the Council's revenue streams, as they are material to the financial statements audit.

As part of our audit work, we have:

Accounting policies and systems

- Evaluated the Council's accounting policies for recognition of income and expenditure for its material income and expenditure streams and compliance with CIPFA Code
- Updated our understanding of the Council's business processes associated with accounting for income and expenditure.

Fees, Charges and other service income

- Agreed, on a sample basis, income and year end receivables from other income to supporting evidence.

Taxation and non specific grant income

- Income for national non-domestic rates (NDR) and council tax is predictable and therefore we conducted substantive analytical procedures. We have also obtained sufficient assurances on NDR relief for 2020-21
- For other grants, sample tested items for supporting evidence and check the appropriateness of the accounting treatment in line with CIPFA Code. Please see further reporting at page 16.

Expenditure

- Agreed, on a sample basis, non-pay expenditure, interest payable and year-end payables through to supporting evidence
- Undertaken detailed substantive analytical procedures on pay expenditure.

We also carried out sufficient and appropriate audit procedures to ascertain that recognition of income and expenditure was in the correct accounting period using cut off testing.

We identified one immaterial disclosure error. This has no impact on Council's Useable Reserves and management has amended the accounts to correct this. This is reported at Appendix C.

From our audit work to date, there are no other issues identified that require reporting to the Audit Committee.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Valuation of land and buildings, including investment properties

The Council 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 (over £950 million) and the sensitivity of this estimate to changes in key assumptions.

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 at the financial statements date, where a rolling programme is used.

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.

Commentary

As part of our audit work, we have:

- evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to management's valuation experts and the scope of their work
- evaluated the competence, capabilities and objectivity of the valuation expert
- discussed and challenged the valuer the basis on which the valuation was carried out
- challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding
- engaged our own auditor's expert valuer to assess the instructions issued to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation
- tested revaluations made during the year to check if they had been input correctly into the Council's asset register
- evaluated the assumptions made by management and the management expert when valuing investment properties at fair value as at 31 March 2021
- evaluated the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end
- evaluated, 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.

Our audit work to date has identified the following issue:

Material valuation uncertainty reported by the Council's valuer: The Council's valuation specialists have included a material valuation uncertainty as a result of Covid-19 on land and buildings valuations, including investment properties. This was reported in the draft financial statements, under assumptions made about the future and other major sources of estimation uncertainty, and in notes 19 and 20 - Propriety Plant and Equipment and Investment Properties notes respectively.

Considering the latest RICS guidance to valuers is that blanket material uncertainties as a result of Covid-19 are no longer required, we challenged the Council on this disclosure. After further considerations of the asset types and application of accounting principles around material estimation uncertainties, management has agreed to remove the disclosure from the financial statements in the revised version of the accounts. This has no impact to our audit opinion. We have reported this at Appendix C.

Other issues: We identified one immaterial issue in relation to charging additional depreciation on a revalued building during 2020-21. We also identified minor disclosure issues that management has amended the revised financial statements. We have reported these at Appendix C.

None of these issues have any impact to the proposed audit opinion to be issued.

2. Financial Statements - Significant risks

Risks identified in our Audit Plan

Commentary

Valuation of the pension fund net liability

The Council'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 (£485m in the Council's balance sheet per draft accounts) and the sensitivity of the estimate to changes in key assumptions.

The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of Practice for Local Government Accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation.

The source data used by the actuaries to produce the net pension liability estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable.

The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated pension fund net liability.

We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.

As part of our audit work, we have:

- updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls
- evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work
- assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation
- assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability
- 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
- performed procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report
- 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
- obtained assurances that the asset valuations are based on 31 March 2021.
- as part of our additional audit challenge and understanding of the net pension fund liability valuation, we also had a meeting with the Pension Fund actuary and the Pension Fund Administrator.

We have the following matter to report in relation to our work on this significant risk:

Decrease in pension fund liability by £20.3m: The April 2021 actuary reports included an Investment Return of 19.32% which was not based on asset valuations as at 31 March 2021. As part of the pension fund audit, the South Yorkshire Pension Fund (SYPF) Auditor identified a material change in pension fund asset valuations from December 2020 to 31 March 2021. As a result, the SYPF revalued the pension fund assets as at 31 March 2021 which highlighted a movement in the total investment return from previous 19.32% to 21.1%. The actuary, updated the net pension liability reports in July 2021 to address this change. The impact of this to the Council was a £20.3m reduction in the net pension liability from £485m to £464m. This was a post draft accounts adjustment by management as reported at the September Audit Committee. We have now audited this adjustment carried out by management and can confirm that it has been appropriately accounted for in the final audited accounts.

Our audit work to date has not identified any other issues that need to be reported to the Audit Committee.

2. Financial Statements – new issues and risks

Issue

Auditor commentary and view

IFRS 16 implementation

Although the implementation of IFRS 16 has been delayed to 1 April 2022, audited bodies still need to include disclosure in their 2020-21 accounts to comply with the requirement of IAS 8 para 31. As a minimum, we expect audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.

The Council has included a high level reference to IFRS16 in its accounts under Accounting Standards Issued but Not Yet Adopted.

The minimum requirements of IAS8 have been met. Management and the audit team will liaise during the 2021-22 audit to ensure the requirements of the new standard are being followed and plans are in place for this issue to be adequately reported in the 2021-22 accounts and fully adopted in the 2022-23 accounts.

Recognition and Presentation of Grant Income

The Council receives a number of grants and contributions and is required to follow the requirements set out in sections 2.3 and 2.6 of the Code. The main considerations are to determine whether the Council is acting as principal or agent and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income.

Note 7 and Note 8 to the accounts include a detailed analysis of grant income. This includes breakdowns of Taxation and Non Specific Grant Income, Analysis of grant income credited to CIES and capital grant received in advance. Both notes provide the accounting principles supporting grant income.

Our audit testing to date of grant income during 2020-21 has not identified any non-compliance with the requirements for grant accounting as specified in the Code.

The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.

IT General Controls (ITGC) work

As part of our audit procedures on the financial statements, we conducted our ITGC work. This was targeted on general IT controls based on our prior year knowledge and updating it for 2020-21. This was performed by our IT specialists. The objective was to identify any significant deficiencies in IT general controls that could lead to any material errors in the financial statements.

IT specialists did not identify any deficiencies or recommendations that need reporting as a result of 2020-21 work.

We can confirm that there are no significant deficiencies arising from our IT specialists' work.

2. Key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Auditor Comments	Assessment
Council Dwellings valuation: £694.4m	<p>The Council is required to revalue its Council housing in accordance with Department of Levelling up Housing and Communities (DLUHC) Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties.</p> <p>The Council has engaged its valuer to complete the valuation of these properties.</p> <p>The valuation reported as at 31 March 2021 amounted to £694m, a net increase of £40m from 2019-20 (£654m).</p>	<ul style="list-style-type: none"> The Council's RICS qualified valuer has valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties. Our work indicated that this methodology was applied correctly to the 2020-21 valuation. We have assessed the Council's valuer to be competent, capable and objective in carrying out the valuations We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report We have agreed the HRA valuation report to the accounts We have compared the valuation movements with the Gerald Eve (property valuation specialists) national report and held discussions with our own valuation auditor's expert. These discussions are still on going and we intend make our conclusions before we issue the audit opinion. <p>Our audit work to date has not identified any issues in respect of management key judgements and estimates made by management.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p> <p>TBC</p>

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Auditor Comments	Assessment
<p>Other Land and Buildings valuation: £272.9m</p> <p>Investment Properties – £26.6m</p>	<p>Other land and buildings comprises c£223.6m (c72%) of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision.</p> <p>The remainder of other land and buildings (c£49.3m or 18%) are not specialised in nature (such as car parks) and are required to be valued at existing use in value (EUV) at year end.</p> <p>The Council has engaged its in-house RICS qualified valuer to complete the valuation of assets on a five yearly cyclical basis as permitted by Code of Practice on Local Authority Accounting.</p> <p>The Council has a process in place to assess assets not revalued in year. Based on the revaluation movements observed for assets revalued as part of the rolling cycle, the valuers assess whether other assets within each group are likely to show a significant movement and if so, the valuers will revalue further assets within the group. There is another process to assess the movement between the valuation date (1 April) and the year end. For specialised assets, this assessment is based on the movement in appropriate indices. For non-specialised assets, which are valued using market based inputs, an exercise is undertaken to ensure key inputs remain appropriate. Revaluations at the year end are processed when deemed appropriate by the valuers to give management assurance that the closing current value is not materially different to its carrying value.</p>	<ul style="list-style-type: none"> We have assessed the Council's in-house valuer, to be competent, capable and objective We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and have no issues to report The valuation methods remain consistent with the prior year In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) property valuation report and held discussions with our own valuation auditor's expert. These discussions are still on going. We have also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. These discussions are still on-going and we intend make our conclusions before we issue the audit opinion. Material valuation uncertainty reported by the Council's valuer: The Council's valuation specialists have included a material valuation uncertainty as a result of Covid-19 on land and buildings valuations, including investment properties. This was reported in the draft financial statements, under assumptions made about the future and other major sources of estimation uncertainty, and in notes 19 and 20 - Propriety Plant and Equipment and Investment Properties notes respectively. We have reported this at Appendix C and page 9. We have made a recommendation to bring the valuation date closer to year end for other land and buildings (see Appendix A) 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p> <p>TBC</p>

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Auditor Comments	Assessment
Investment Properties – £26.6m	<p>Investment Properties:</p> <p>All investment properties (note 20 to the financial statements) have been valued as at 31 March 2021 at fair value based on a market approach as applicable. This takes in to account existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strengths for existing tenants and data and market knowledge gained in managing the Council's investment property portfolio.</p> <p>The fair value hierarchy and valuation techniques used to determine fair value of investment properties are further disclosed in note 20 to the accounts.</p>	<ul style="list-style-type: none"> Our work on investment property valuations highlighted that assumptions and estimates are neither optimistic nor cautious. See further auditor comments at page 13 	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p> <p>TBC</p>

2. key judgements and estimates(continued)

Significant Judgement or estimate	Summary of management approach	Auditor comments	Assessment																		
<p>Net pension liability</p> <p>£485.2m (draft accounts)</p> <p>£464.8m (revised accounts)</p>	<p>Per the draft accounts, the Council’s net pension liability at 31 March 2021 was £485.2m (PY £450m) comprising the South Yorkshire Local Government Pension Scheme.</p> <p>The Council uses Mercers to provide actuarial valuations of the Council’s assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and pension increase rate.</p> <p>Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £15m net actuarial loss during 2020-21 (final audited accounts)</p>	<ul style="list-style-type: none">We have assessed the Council’s actuary, Mercers, to be competent, capable and objectiveWe have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019-20 roll forward calculation carried out by the actuary and have no issues to raise.We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – please see the table below for our comparison of actuarial assumptions. The PwC report has also indicated that they are comfortable with Mercer’s methodologies used to establish assumptions and they will produce reasonable assumptions as at 31 March 2021 for all employers. <table><tr><th>Assumption</th><th>Actuary Value</th><th>PwC comments</th></tr><tr><td>Discount rate</td><td>Beginning 2.4% End 2.1%</td><td>Assumption appears reasonable</td></tr><tr><td>Pension increase rate</td><td>Beginning 2.1% End 2.7%</td><td>Assumption appears reasonable and methodology appropriate.</td></tr><tr><td>Salary growth</td><td>Beginning 3.35% End 3.95%</td><td>In line with 2020 valuation.</td></tr><tr><td>Life expectancy – Males currently aged 45 / 65</td><td>Future Pensioners: 23.9 Current- pensioners: 22.4</td><td>Overall mortality assumptions appear reasonable.</td></tr><tr><td>Life expectancy – Females currently aged 45 / 65</td><td>Future Pensioners: 27.1 Current- pensioners: 27.2</td><td>Overall mortality assumptions appear reasonable.</td></tr></table> <ul style="list-style-type: none">We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimateWe confirmed that valuation assets are based on 31 March 2021 valuationsWe have confirmed there were no significant changes in 2020-21 to the valuation methodAs part of our additional audit challenge and understanding of the net pension fund liability valuation, we have met with the Pension Fund actuary and there are no issues arising as a result of this meetingPlease refer to page 10 of this report for further information on the post draft accounts adjustment as a result of change in the Investment Return Rate. This resulted the net pension fund liability reducing by £20.3m, from £485m to £465m. This has no impact to our audit opinion and the management assessment of key judgements and estimates	Assumption	Actuary Value	PwC comments	Discount rate	Beginning 2.4% End 2.1%	Assumption appears reasonable	Pension increase rate	Beginning 2.1% End 2.7%	Assumption appears reasonable and methodology appropriate.	Salary growth	Beginning 3.35% End 3.95%	In line with 2020 valuation.	Life expectancy – Males currently aged 45 / 65	Future Pensioners: 23.9 Current- pensioners: 22.4	Overall mortality assumptions appear reasonable.	Life expectancy – Females currently aged 45 / 65	Future Pensioners: 27.1 Current- pensioners: 27.2	Overall mortality assumptions appear reasonable.	<p>We consider management’s process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p>
Assumption	Actuary Value	PwC comments																			
Discount rate	Beginning 2.4% End 2.1%	Assumption appears reasonable																			
Pension increase rate	Beginning 2.1% End 2.7%	Assumption appears reasonable and methodology appropriate.																			
Salary growth	Beginning 3.35% End 3.95%	In line with 2020 valuation.																			
Life expectancy – Males currently aged 45 / 65	Future Pensioners: 23.9 Current- pensioners: 22.4	Overall mortality assumptions appear reasonable.																			
Life expectancy – Females currently aged 45 / 65	Future Pensioners: 27.1 Current- pensioners: 27.2	Overall mortality assumptions appear reasonable.																			

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2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
<p>Grants Income:</p> <p>£509m (PY £456m) - from adding notes 7 and 8</p> <p>The Council receives a number of grants and contributions and is required to follow the requirements set out in the Code. The main considerations are to determine whether the Council is acting as principal or agent, and if there are any conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income. The Council also needs to assess whether grants are specific, and hence credited to service revenue accounts, or of a general or capital nature in which case they are credited to taxation and non-specific grant income.</p> <p>Due to the Covid-19 pandemic there has been a significant increase in the level of grant funding with associated complexity and requirement of management's judgement on the accounting.</p>	<p>Management has taken into account three main considerations in accounting for grants:</p> <ol style="list-style-type: none"> whether the Council is acting as the principal or agent and particularly whether it controls the goods or services before they transfer to the service recipient. Management's assessment needs to consider all relevant factors such as who bears credit risk and responsibility for any overpayments, who determines the amount, who sets the criteria for entitlement, who designs the scheme and whether there are discretionary elements. whether there are conditions outstanding (as distinct from restrictions) that would require the grant to be recognised as receipt in advance, otherwise grant should be recognised as income whether the grant is a specific or non-specific grant. General un-ringfenced grants are disclosed on the face of the CIES, whereas ringfenced grants are required to be credited to service revenue accounts. <p>There may be judgements over the accounting treatment. Different conclusions may be reached by councils depending on how they have applied any discretion in administering the schemes and application of Code guidance.</p> <p>Grant income is disclosed at notes 7 and 8 to the financial statements.</p>	<ul style="list-style-type: none"> We have substantively tested a sample of grants across categories and reviewed management's assessment as to whether the Council is acting as the principal or agent For the samples selected we have reviewed the completeness and accuracy of the underlying information used to determine whether there are conditions outstanding (as distinct from restrictions) that would determine whether the grant be recognised as a receipt in advance or income We have also assessed for the sample of grants received, whether the grant is specific or non specific grant (or whether it is a capital grant) – which impacts on where the grant is presented in the CIES or not. We have assessed the adequacy of disclosure of grants received and judgement used by management as part of our detail testing. <p>Our work to date has not identified any matters to report in this area.</p>	<p>We consider management's process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p>

2. key judgements and estimates (continued)

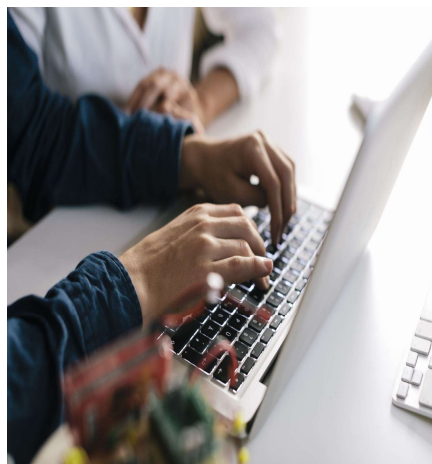
Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision charged to General Fund £6.6m	<p>The Council is responsible on an annual basis for determining the amount charged for the repayment of debt known as its Minimum Revenue Provision (MRP). The basis for the charge is set out in regulations and statutory guidance</p> <p>The year end MRP charge to general fund reserves was £6.5m. In 2014-15, the Council undertook a review of its MRP policy in line with the Capital Financing Regulations. Under the current statutory guidance, there are four options available to the Council:</p> <ol style="list-style-type: none"> 1. Regulatory Method 2. Capital Financing Requirement Method 3. Asset Life Method 4. Depreciation Method <p>As part of the review by the Council, consideration was given to all four options. Option 3 was selected linking MRP to the average useful life of an asset which better reflects the economic benefit the Council gets from using the asset to deliver services over its useful life. This was linked to ensuring council taxpayers are being charged each year in line with asset usage and prevents current taxpayers meeting the cost of future usage or future tax-payers being burdened with charges relating to assets that are no longer in use.</p> <p>The other 3 methods in the statutory guidance were not dependent upon the Useful Economic Life of the asset to be financed and therefore the Council considered method 3 to be more prudent.</p> <p>Within Option 3, MRP is permitted to be calculated in one of two ways – equal instalments or on an annuity basis. The Council has chosen to calculate MRP on an annuity basis. Whilst this is in line with permitted guidance, this has the effect of reducing MRP in the early years and increasing it in the later years of the asset.</p> <p>This re-profiling resulted a significant overpayment, that has since been recovered via an annual MRP 'holiday' (in line with the CIPFA Prudential Code & MRP Guidance). The recovery of any MRP that had been overcharged in previous years was clawed back by taking an MRP 'holiday' in full or in part against future years' charges that would otherwise have been made.</p>	<ul style="list-style-type: none"> • We have reviewed the Council's approach to MRP as described on the left and overleaf on pages 18. • The Council's calculation of MRP has been determined in line with the statutory guidance and management assess the MRP charge to remain prudent • There have been no changes in the Council's policy for calculation of MRP since the current policy was approved by full Council in 2014-15. • Our work highlighted that the MRP policy has been reported to the Cabinet every year as part of budget setting process, covering capital expenditure plans and prudential indicators. • The MRP charge is an area of increasing focus for local authority external auditors following recent highly publicised financial challenges at certain local authorities where MRP charges were found to be inappropriate. For our 2020-21 audits, we have compared the MRP charge to the general fund as a percentage of the Capital Financing Requirement of the General Fund. At Rotherham, the charge was £6.6m and CFR General Fund amount was £543m - at the year end, which gives 1.2%. This is relatively low compared to some of our other local authorities. However, when you take into account the annuity method of MRP charge, where the MRP charge is low at early years and increasing in the later years according to the profiling, this is not considered to be unreasonable. 	<p>We consider management's current process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p>

2. key judgements and estimates (continued)

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Minimum Revenue Provision continued	<p>The MRP 'holiday' was taken in such a way as to ensure that the total MRP after taking the holiday will not be less than zero in any financial year. Following the introduction of the revised CIPFA Prudential Code 2018-19 and CIPFA Treasury Management Code of Practice it is no longer permissible for the Council to calculate new MRP overpayments in relation to historical transactions, however it could continue to realign the existing overpayment as the new code is not to be applied retrospectively. As a result, the Council's use of the MRP holiday identified in 2014-15 ended in 2019-20. No MRP holiday was used in 2020-21 with the process concluded, all available MRP holiday has now been utilised.</p> <p>MRP on an Annuity Basis - Statutory guidance, method 3(b) As indicated at page 17, The Council accounts for MRP and repayment of borrowing on an annuity basis. This means all outstanding debt is 'repaid' within the useful economic life of the asset with the profile of repayments increasing over time i.e. repayments start low and increase over the Useful Economic Life of the asset which is now averaging at 50 years for significant asset base of the Council, which is considered prudent</p> <p>From a budgeting perspective the Council needs to ensure that sufficient budgetary planning should be in place to absorb MRP charges to the General Fund which is increasing in the future years due to the Annuity method adopted.</p> <p>The Council may look to change its approach to MRP calculations either on all assets or some asset classifications moving forward to create a more level profile for MRP than the Annuity method. However, the present approach used by the Council is reported in this section.</p> <p>Overall, the Council currently maintains an MRP model that compares future charges, the budgetary provision and the associated earmarked reserves to ensure that the MRP charges are affordable over the 50 year period. Using this model, the Council is able to appropriately set aside both budgetary provision via the MTFS and the accumulated reserves to maintain this prudent approach.</p>	<p>Any future changes to the MRP policy and reprofiling should give due regard to the statutory guidance, be prudent and affordable for future medium and long term financial planning of the Council.</p> <p>Our work indicated that, overall the Council's current MRP policy is prudent with appropriate application of the statutory guidance, associated judgements and estimates on useful economic life of financed assets.</p>	<p>We consider management's current process is appropriate and key assumptions are neither optimistic or cautious (light purple)</p>

2. Other communication requirements

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



Issue	Commentary
Matters in relation to fraud	<p>We have discussed the risk of fraud with the Chief Financial Officer (s151) and Head of Corporate Finance.</p> <p>We are currently awaiting a response from management on our informing risk assessment inquiries made in July 2021 which captures matters in relation to fraud. These responses should also be shared with the Chair of the Audit Committee. This ensures the Audit Committee Chair's understanding of fraud matters are consistent with management's responses provided to us. This forms part of our conclusions on fraud matters under ISA(UK). We understand this will be presented by management to the Audit Committee on 30 November.</p> <p>We have not been made aware of any material incidents in the year and no other issues have been identified during the course of our audit.</p>
Matters in relation to related parties	<p>We are not aware of any related parties or related party transactions which have not been disclosed.</p> <p>However, our work on note 17 to the financial statements indicated the Council has disclosed parties that are not necessarily captured by the relevant accounting standard as related parties. Therefore there was an over disclosure around this accounting requirement. This has been reported at Appendix C and we have made a recommendation on this for 2021-22. This has no impact to our audit opinion.</p>
Matters in relation to laws and regulations	<p>You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.</p>
Written representations	<p>A letter of representation has been requested from the Council – tabled separately for the Audit Committee meeting.</p>
Confirmation requests from third parties	<p>We requested from management permission to send a confirmation request to the Council's banker, and entities who were involved with the Council's investments and borrowings. This permission was granted and the requests were sent and responded to with positive confirmation.</p>
Accounting practices	<p>We have evaluated the appropriateness of the Council's accounting policies, accounting estimates and financial statement disclosures.</p> <p>Our review found no material omissions in the financial statements to date. Our work did identify a small number of presentational disclosure amendments which have been processed by management and these are set out at Appendix C.</p>
Audit evidence and explanations / significant difficulties	<p>We have experienced good, continued co-operation from the Council for all information and explanations requested to date. In order to finalise our audit, we expect to receive continued timely engagement and responses from management. There are no significant difficulties to report in terms of receipt of audit evidence at this time.</p>

2. Other communication requirements



Our responsibility

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

Issue	Commentary
Going concern	<p data-bbox="860 331 2148 515">In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p data-bbox="860 536 2148 592">Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities:</p> <ul data-bbox="860 612 2148 938" style="list-style-type: none"> • the use of the going concern basis of accounting is not a matter of significant focus of the auditor’s time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity’s services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the Council’s financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. <p data-bbox="860 954 2148 1106">Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Council meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated:</p> <ul data-bbox="860 1126 2148 1276" style="list-style-type: none"> • the nature of the Council and the environment in which it operates • the Council’s financial reporting framework • the Council’s system of internal control for identifying events or conditions relevant to going concern • management’s going concern assessment. <p data-bbox="860 1342 2148 1398">On the basis of this work, we have obtained sufficient and appropriate audit evidence to enable us to conclude that:</p> <ul data-bbox="860 1418 2148 1513" style="list-style-type: none"> • a material uncertainty related to going concern has not been identified • management’s use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

2. Other responsibilities under the Code

Issue	Commentary
Other information	<p>We are required to give an opinion on whether the other information published together with the audited financial statements including the Annual Governance Statement and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified other than minor presentational matters, which have been adequately rectified by management. These are reported at Appendix C. We plan to issue an unmodified opinion in this respect as reported at Appendix E.</p>
Matters on which we report by exception	<p>We are required to report on a number of matters by exception in a number of areas:</p> <ul style="list-style-type: none"> • if the Annual Governance Statement does not comply with disclosure requirements set out in CIPFA/SOLACE guidance or is misleading or inconsistent with the information of which we are aware from our audit. • if we have applied any of our statutory powers or duties • where we are not satisfied in respect of arrangements to secure value for money and have reported [a] significant weakness(es). <p>We have nothing to report on these matters. Our Value for Money work is underway and will be completed by February 2022.</p>
Specified procedures for Whole of Government Accounts	<p>We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions.</p> <p>As the Council exceeds the specified group reporting threshold we examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements.</p> <p>We note that guidance for this work has not yet been issued and therefore this work has not yet commenced. The NAO requires the work to be completed once the audit opinion is provided on the financial statements and has not yet released data collection instructions.</p>
Certification of the closure of the audit	<p>We intend to delay the certification of the closure of the 2020-21 audit of the Council in the audit report, as detailed at Appendix E, until we have completed our work on the WGA consolidation exercise mentioned above and completed our Value for Money responsibilities with the issue of the Auditor's Annual Report.</p> <p>This is in common with the vast majority of other local authorities given the later audit deadline for the VFM work and the current lack of instructions for the WGA work.</p>



3. 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:

1. A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
2. More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria
3. Auditors undertaking sufficient analysis on the Council's VFM arrangements to arrive at 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 the three specified reporting criteria.



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

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows (in order of severity):



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

3. Risks of possible significant VFM weaknesses

As part of our planning work, we considered whether there were any risks of possible significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources that we needed to perform further procedures on. We reported one risk of significant weakness to you in our Audit Plan dated 20 July 2021 which is highlighted below.

We have conducted further work since our Audit Plan was issued in July. Our conclusions as of November 2021 is reported below. We will make further reference to this area on completion of our VFM work in our Auditor's Annual Report – due by February 2022.

Risks of possible significant weakness - July 2021 Audit Plan

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 planning stage we reported the following risk of possible significant weakness:

Dedicated Schools Grant (DSG) deficit position and recovery plan per Audit Plan:

Over the past two years we have reviewed and monitored the Council's DSG 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. Initial discussions with management in 2020-21 indicated a plan to reduce the in-year deficit by £1.9m as at 31 March 2021.

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.

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.

Risks of possible significant weakness – work done from July to November 2021

The VFM risk could arise from:

- lack of arrangements in place at the Council to manage and reduce this deficit
- lack of stakeholder involvement to understand and address this deficit in the medium to longer term.
- lack of understanding of the challenges ahead and reason for the deficit
- lack of reporting to the members.

Lack of such proper arrangements could increase the severity of this issue every year and in turn could create a significant financial burden to the Council. Such VFM risks would give rise to significant VFM weakness.

We have conducted our work in this area since our Audit Plan was issued in July. The Council's DSG reserve continues to be in material deficit, where a planned reduction of £1.9m actually ended in a 1.4m increase in the deficit to £21.3m – a swing of £3.3m. As in the prior year, we have benchmarked the Council's arrangements against guidance issued by the NAO in September 2020. The guidance covers good practice arrangements that should be in place when such deficits arise at local authorities.

Conclusion on risk of significant weakness: Material DSG deficit – November 2021

Conclusion: Our work is set out on the following two pages (see pages 24 and 25). Our conclusion is, based on our review of the evidence of the Council's responses to date, there is no residual risk of a significant weakness in arrangements in place to address this material DSG deficit.

However, we will make further reference to this area on completion of our VFM work in our Auditor's Annual Report to the Audit Committee – due by February 2022.

Risk of significant weakness

Audit work performed and summary findings

Dedicated School Grant (DSG) deficit position and recovery plan

[See page 23 of this report for the description of the risk as reported in our July 2021 Audit Plan]

We have assessed the Council's material DSG deficit against the four criteria set out by the NAO guidance. This forms a key part of our assessment and conclusion (as set out at page 23) on the Council's DSG deficit at this stage of the VFM work.

[Q1] Has the body demonstrated engagement with DfE in respect of its DSG deficit and what are the actions arising from this discussion?

Yes. A number of meetings have been held between the Council and the DfE within the Safety Valve Intervention Programme (DSG Recovery Plan). This has happened during 2020-21 and continues into 2021-22. The next step is for the Council to submit a further proposal to the DfE on 22 November 2021 – this has been submitted. The DfE is due to feedback to the Council on 30 November prior to a further final submission by the Council on 7 December.

During these meetings the Council updates its position, performances to date and action plan undertaken to mitigate and manage the deficit. The Council has produced a DSG Financial Management Plan to identify cost savings and reduce the cost pressures on the High Needs Block within the Dedicated Schools Grant. The four main cost pressures (which are also national pressures) are:

1. High cost external residential placements and independent sector placements
2. General growth in the number of Education Health Care Plans (EHCP) with a pressure identified for supporting young people post 16 years of age
3. Growth in alternative provision placements linked to Pupil Referral Units as an outcome of permanent exclusions
4. The growth in the number of pupils who require specialist provision when their assessed needs cannot be met by mainstream schools and academies.

These key challenges and cost pressures are discussed together with progress made. In addition, there is evidence that the Council regularly liaises with the Rotherham School Forum, highlighting the risks and actions to be taken by all stakeholders including the School Forum. Overall our work indicates that there is reasonable evidence of Council engaging with DfE and other key stakeholders to manage the deficit.

[Q2]: Does the Council have a deficit recovery plan based on reasonable assumptions?

Partially. The Council had a 3 year recovery plan which was set in summer 2019, covering 2019-20 to 2021-22. The Council did not achieve the deficit recovery plan targets set for 2019-20 and 2020-21. As reported in our prior year's Audit Findings Report, the 2019-20 target was not achieved by c£3m and 2020-21 target was missed by c0.9m (based on a revised target set during 2020) or £3.3m based on the original 2020-21 target.

The latest management template proposal has been shared with DfE in November 2021 as part of Safety Valve discussions currently ongoing between the Council and the DfE. The DSG cost pressures are changing upon increasing EHCP demands – in common with a number of local authorities across the country. The covid-19 pandemic has also not helped in terms of using more reasonable assumptions as the environment has been volatile.

The Council's November submission to the DfE notes a planned £0.75m deficit on DSG for 2021-22 before moving back into an in-year surplus of £0.9m for 2022-23. The c£3m school block to High Needs Block transfers in recent years is planned to continue up to 2023-24.

Overall, given the national challenges in this areas, the Council's arrangements on this issue are only deemed to be partially met.

Audit work performed and summary findings – continued

Dedicated School Grant (DSG) deficit position and recovery plan

See page 23 of this report for the description of the risk as reported in our July 2021 Audit Plan

(Q3) Where deficits continue to grow, does the authority understand why? Is there evidence of a correlation between increasing demand and rising cost?

Yes. The over spends are as a result of a number of factors and are consistent with increases in DSG deficit positions across a number of local authorities. One aspect is an overall increase in Education Health and Care Plans. Other contributors include an increase in the number of young people aged 16 to 25 with an EHCP who are now the responsibility of the Council to fund, an increase in the number of children accessing higher cost provision and an increase in the number of pupils in Alternative Provisions (Pupil Referral Units). The deficit reflects system wide issues in how the funding is determined and demographic challenges. Whilst the allocation moved to a formulaic basis in 2018-19 and now includes proxy indicators of SEND within the population, a large element of the grant remains fixed, based on historic spend, where demands on EHCP have significantly increased since then. The DfE have recently acknowledged the need to review the national funding formula for allocations of high needs funding to local authorities by launching a consultation in February 2021. It proposes changes to the historical spend element for 2022-23 as well as looking at other funding factors in future years.

From our continuing discussions with senior management over the last two years, attendance of Audit Committee meetings and review of cabinet reports indicates that the Council understands the reasons for the deficit increase. At Rotherham, there is correlation between the deficit and the increasing demand on the High Needs Block budget. Since 2019-20, the Council has successfully submitted disapplication requests to the Secretary of State to transfer 1.5% of the DSG Schools Block allocation (c£3m) to the High Needs Block. This has again taken place as part of the 2021-22 Schools funding formula consultation and was agreed in February 2021.

Overall our work indicates that the Council understands the reasons for these deficits and there is a clear correlation, for example, an increase in the number of young people aged 16 to 25 with an EHCP (which is now the Council's responsibility to fund) and rising costs in the High Needs Block budget.

(Q4). Do members fully understand the position, risks and actions being taken?

Yes. Management has reported and updated the Cabinet and Audit Committee members throughout 2020-21 regarding the DSG deficit performance. 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 2020-21 outturn report to the Cabinet, presented in July 2021, summarises DSG performance including the High Needs Block budget pressures.

Additionally, regular reporting is made to the members of the Audit Committee, which we have witnessed during the year. This reporting provides actions taken by the Council and the latest position on the DSG deficit during the year.

Overall, from our experience, there is an established reporting structure within the Council to the Cabinet and the Audit Committee highlighting the DSG deficit. Therefore, members are regularly informed about the DSG performance, risks and actions being undertaken, including the Council's liaison with the stakeholders such as the Rotherham School Forum and DfE.

4. Independence and ethics

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

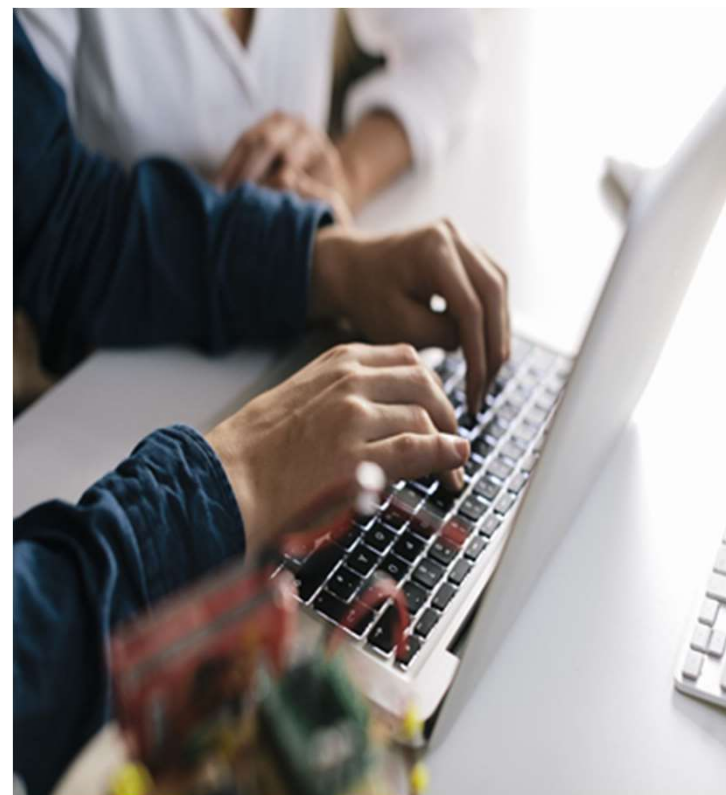
We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed at Appendix D.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)



4. Independence and ethics (continued)

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified as well as the threats to our independence and associated safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related:			
Certification of Housing Benefit Claim	*22,800	Self-Interest (because this is a recurring fee) Self review (because GT provides audit services)	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. To mitigate against the self review threat, the timing of certification work is done after the audit has completed, materiality of the amounts involved to our opinion and unlikelihood of material errors arising and the Council has informed management who will decide whether to amend returns for our findings and agree the accuracy of our reports on grants.
Responding to Elector correspondence	4,000	Self review (because GT provides audit services)	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. The engagement lead had no involvement in the preparation of information provided for review, and do not expect material misstatements in the financial statements to arise from the performance of these elector queries. Although items reviewed may be included within the financial statements audited, the review work required in respect of this is separate from the work required to audit the financial statements under ISA(UK). Additionally, this is not a recurring fee and is not considered a significant threat to independence as the fee for this work is £4,000 in comparison to the total fee for the audit of £183,938 and in particular relative to Grant Thornton UK LLP's turnover overall.
Non-audit related:			
None	-	-	-

NOTE on Housing Benefit fee:

* 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

These services are consistent with the Council's policy on the allotment of non-audit work to your auditors. All services have been reported to the Audit Committee. None of the services provided are subject to contingent fees.

Appendices

A. Action Plan

We have made the following recommendations as a result of issues identified during the course of our audit including our Value for Money work to date. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of our 2021-22 audit. The matters reported here are limited to those areas we have identified during the course of our audit and VFM work to date, and are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
Medium	<p>Minimum Revenue Provision</p> <p>We have reviewed the Council's approach to MRP as described on pages 17 and 18.</p> <p>The Council's calculation of MRP has been determined in line with the statutory guidance and management assess the MRP charge to remain prudent. There have been no changes in the Council's policy for calculation of MRP since the current policy was approved by full Council in 2015-16</p> <p>The MRP charge is an area of increasing focus for local authority external auditors following recent high publicised financial challenges at certain local authorities where MRP charges were found to be inappropriate.</p> <p>For our 2020-21 audits, we have compared the MRP charge to the general fund as a percentage of the Capital Financing Requirement for the General Fund. At Rotherham, the charge is £6.5m and CFR General Fund amount of £543m at the year end, which gives a charge of 1.2%. This is relatively low compared to some of our other local authorities. However, when you take into account the annuity method of MRP charge, where the MRP charge is low in early years and increasing in the later years according to the profiling, this is not considered unreasonable.</p> <p>Our discussions with management indicate that the Council may look to change its approach to MRP calculations either on all assets or some asset classifications moving forward to create a more level profile for MRP than the current annuity method.</p>	<p>Any future changes to the Council's MRP policy and reprofiling should give due regard to the statutory guidance, be prudent and affordable for future medium and long term financial planning of the Council.</p> <p>Management response:</p> <p><i>Noted and agreed. The Council's current policy for MRP is determined in accordance with statutory guidance and is considered to be reasonable and appropriate. However, the Council keeps its MRP policy under review and any future changes to the policy which may be proposed will continue to have due regard to the statutory guidance and would maintain prudence and affordability within the council's medium and long term financial planning.</i></p>

A. Action Plan

Assessment	Issue and risk	Recommendations
Medium	<p>Other Land and Buildings Valuation date:</p> <p>Our work on land and building valuations indicates that the reported valuation date remains at 1 April (12 months from the year end date). This results in a lot of audit challenge from us, and a lot of work for the Council's finance team and the valuers, to justify that the valuation of assets valued on 1 April remains materially accurate as at 31 March.</p> <p>A number of our other local authority audit clients have moved all their valuation dates to 31 March, or much closer to the balance sheet date.</p> <p>We understand the valuation date for land and buildings could be moved closer to 31 March, which should enable a more efficient valuation process and audit approach going forward.</p>	<p>Considering the extensive procedures that the Council has in place to assess the movement in year of assets valued on 1 April, the Council should consider updating the valuations of assets valued on a Depreciated Replacement Cost basis with the year-end BCIS rebuild costs. This would provide the audit team with a greater level of assurance over the valuation of assets at the reporting date.</p> <p>The Council should consider moving its valuation date for land and buildings closer to the balance sheet date of 31 March.</p> <p>Management response</p> <p><i>Noted and agreed. The Council intends to review its valuation process with a view to adjusting the valuation date from the 1 April to a later date within the financial year. Whilst the Council does recognise the benefit of this and the increased efficiency in processing it may bring, in order for the Council to meet the accounts closure timeline, it must have valuation reports completed before the end of February each year, to allow adequate review, challenge and processing. It is therefore expected that the Council will adjust its valuation date to the 31 December each year.</i></p>
Low	<p>Over disclosure of Related Party Transactions – Note 17 to the statement of Accounts</p> <p>As identified in our 2019-20 audit, our work in 2020-21 on related party transactions (RPTs) also highlighted that there are some over disclosures in RPTs in Note 17. Some of the disclosures made in Note 17 did not strictly satisfy IAS 24 - Related Party Disclosures criteria.</p> <p>In all these circumstances, the Council had over-disclosed when some of these disclosures were not required to be reported under IAS 24.</p>	<p>As part of continuing the accounts decluttering process and maximisation of accounts closedown efficiencies, the Council should consider revisiting such over disclosures on RPTs in the 2021-22 financial statements.</p> <p>Management response</p> <p><i>Noted. The Council is comfortable with the level of information disclosed within the Statement of Accounts and does not intend to adjust this note.</i></p>

B. Follow up of prior year recommendations

We identified two recommendations in the audit of the Council's 2019-20 financial statements, which was reported in our 2019-20 Audit Findings (ISA260) Report.

We followed these up in our 2020-21 Audit Plan which was presented to you on 29 July 2021. Therefore it is not repeated in this report.

We are pleased to report that management has implemented both recommendations, which are summarised and referenced to the Audit Plan on this page.

Assessment	Previously communicated subject matter and recommendation	Update on actions taken to address the issue
✓	<p>DSG deficit reduction plan 2020-21 and beyond</p> <p>Due to the material DSG deficit position, we recommended , the following on DSG deficit reduction plans:</p> <ul style="list-style-type: none"> - 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 - Regular reporting to the Cabinet, Audit Committee as appropriate, ensuring Members are kept informed of key developments on reducing the material DSG deficit 	<p>Our work indicated; this is now actioned for last year and continued in 2020-21 and beyond.</p> <p>See our Audit Plan reported to the Audit Committee on 29 July 2021, page 13, for further information.</p>
✓	<p>Financial impact on Covid-19, budget monitoring 2020-21 and beyond</p> <p>We recommended 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 Department for Levelling Up, Housing and Communities and the government.</p>	<p>Our work indicated; this is now actioned for last year and continued in 2020-21 and beyond.</p> <p>See our Audit Plan reported to the Audit Committee on 29 July 2021, page 14, for further information.</p>

C. Audit Adjustments

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

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the Council's level of useable reserves for the year ending 31 March 2021.

Detail	Comprehensive Income and Expenditure Statement £million	Statement of Financial Position £million	Impact on useable reserves
(1) Pension fund liability (processed by management):			
Updating pension fund valuation to 31 March 2021 to reflect the updated pension fund asset investment return as at 31 March 2021 from 19.32% to 21.1%. This resulted in a net decrease in the pension fund liability of £20.3m.	Cr Actuarial (gains) / losses on pension assets liabilities 20.3	Dr Retirement Benefit Obligations (Long Term Liabilities) 20.3	None
See page 10 of this report for more information. As a result, the net pension liability as at 31 March 2021 reduced from £485m to £465m.	Dr The movement in Reserves Statement 20.3	Cr Pension Reserve (Unusable Reserves) 20.3	
Overall impact	-	-	No Impact

C. Audit Adjustments

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

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit (as at 22 November) which have been made in the final set of financial statements.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1	Disclosure	Amendments were made to the Annual Governance Statement in line with Code Guidance requirements. Updates also made to areas of the AGS which were not completed at draft stage.	Annual Governance Statement	Yes
2	Disclosure	Minor amendments were made to the draft Narrative Report up to the signing off in end of November.	Narrative Report	Yes
3	Disclosure	Audit fees payable to Grant Thornton, including the main Council audit, Housing Benefit were updated to reflect the accurate fees for all non audit related services to be in line with those disclosed in Section Four and Appendix D of this report.	External Audit Costs Note 15	Yes
4	Disclosure	Removal of disclosure around Material Valuation Uncertainty relating to land and building valuations (including investment properties) and included under assumptions made about future and other major sources of estimation uncertainty section. See page 9 of this report for further information.	Note D, Assumptions made about future and other major sources of estimation uncertainty section, Notes 19 and 20	Yes
5	Disclosure	Updated pensions note to capture the £20.3m adjustment reported at page 32, including fair value of the scheme assets.	Note 19	Yes
6	Disclosure	We identified one immaterial disclosure amendment as part of our detailed testing. This was in respect of mis-classification of interest payment costs of £2.52m initially included in 'other payments' within note 1b. This has no impact on Council's Useable Reserves and management has amended the accounts to correct this.	Note 1b	Yes
7	Disclosure	Capital Commitments: There was an overstatement of commitments as figures disclosed were gross contracts values. The figures need to be adjusted to report the net values with expenditure incurred to date not included in future commitments. The draft disclosure was £121.4m; the overstatement of commitments was £32.8m (as this related to expenditure in 2020-21), therefore the figure to be disclosed in the revised accounts is £88.6m.	Note 19(e)	Yes
8	Disclosure	Other minor disclosure amendments to improve financial reporting and transparency for the reader of the accounts.	Various pages	Yes

C. Audit Adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
9	Disclosure	<p>Our work on related party transactions (RPTs) highlighted that there are some over disclosures in RPTs in Note 17. Some of the disclosures made in Note 17 did not strictly satisfy IAS 24, Related Party Disclosures criteria. In all circumstances, the Council had over-disclosed, when some of these disclosures were not required to be reported under IAS 24.</p> <p>We did not identify any under disclosures in relation to RPTs. Our work indicated, where the transactions are captured by IAS 24, they have been fully disclosed. We have discussed these matters with the Council and requested where IAS 24 was not satisfied those disclosure be removed.</p> <p>We have also made a recommendation at Appendix A to consider for the 2021-22 accounts.</p>	Note 17	No. However, this does not impact our audit opinion.
10	Disclosure	<p>We have noted the DSG deficit reserve of £21.3m has been included with other reserves and netted off against other earmarked reserves to arrive at £19.95m in the draft accounts (note 37). As a Firm, we remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund due to its deficit.</p>	Note 37	No. However, this does not impact our audit opinion.
11	Disclosure	<p>Our work on critical judgments applying accounting policies indicated that some of the judgements are not clearly indicating a judgement and/or are not material:</p> <ul style="list-style-type: none"> • Business rates appeal – the judgement could be enhanced and it is not material for 2020-21 • Better Care Fund – the reporting of the judgement could be enhanced. Also, the clarity of this note regarding income recognition could be enhanced. The note could be clearer that the £12m of income relating to Rotherham CCG (within the total income of £31.5m) has not been recognised in the Council's accounts. The Council's revenue income from pooled budgets is £16.3m and the remaining £3m is for capital purposes as per note 12. <p>We have discussed these matters with management and requested the Council enhances details of the judgement and the link to materiality. These disclosures have not impacted our overall audit approach.</p>	Note 12	No. However, this does not impact our audit opinion.
12	Disclosure	<p>Our work on assumptions made about future and other major sources of estimations uncertainty section indicated that IAS1 (presentation of financial statements) principals have not being fully applied to either describe the future material uncertainty and link to the material nature of the uncertainty. This included:</p> <ul style="list-style-type: none"> • PPE useful lives <p>We have discussed these matters with the Council and requested the disclosure is enhanced to increase the compliance with IAS1. These disclosures have not impacted our overall audit approach.</p>	Note D, page 34	No. However, this does not impact our audit opinion.

C. Audit Adjustments



Impact of unadjusted misstatements

The table below provides detail of adjustments identified during the 2020-21 audit which have not been made within the final set of financial statements due to their immaterial nature. The Audit Committee is required to consider management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement £000	Statement of Financial Position £000	Impact on useable reserves £000	Reason for not adjusting
<p>BDR waste facility PFI was valued at 28 Feb 2021. However 12 months depreciation was charged in year to 31 March 2021 where as it should be only one months depreciation.</p> <p>Therefore, the additional depreciation charged in 2020-21 was £600k.</p> <p>Increase PPE by £600k in the balance sheet and decrease depreciation charge in the CIES by £600k. This is reversed out to Capital Adjustment Account via MIRS. Therefore no impact on Council's Useable Reserves.</p>	See detail column	See detail column		Management does not consider this amount to be material to the Council's accounts.
Overall impact	See detail column	See detail column	None	

D. Fees

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

Audit fees	Proposed fee per Audit Plan July 2021	Final fee
Council Audit	£183,938	£183,938
Total audit fees (excluding VAT)	£183,938	£183,938

Non-audit ‘audit related’ fees for other services:	Proposed fee	Final fee
Certification of Housing Benefit Claim	£22,800*	see note below
Responding to Elector correspondence	4,000	4,000
Total non-audit fees (excluding VAT)	£26,800	£26,800*

Note on Housing Benefit fee:

* 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

The fees reconcile to the revised version of the financial statements following an amendment to the draft accounts in Note 15 - External Audit Fees.

E. Audit opinion (draft)

Our proposed draft audit opinion is an unqualified 'clean' opinion and is included below.

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

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of Rotherham Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2021 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, the

Accounting Policies, notes to the Core Financial Statements, Housing Revenue Account Income and Expenditure Statement, Notes to the Housing Revenue Account, the Collection Fund and Notes to the Collection Fund Statement. The Accounting Policies include, the statement of accounting concepts and policies, Accounting standards issued but not yet adopted, Critical judgements in applying accounting policies and Assumptions made about the future and other major sources of estimation uncertainty. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2021 and of the Authority's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter – Metropolitan Debt Administration statement unaudited

The Authority has included a Metropolitan Debt Administration statement and notes to that statement in its Statement of Accounts. This statement is not required by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020-21 or the Local Audit and Accountability Act 2014. Accordingly, the figures in the Metropolitan Debt Administration statement and the notes to the statement are unaudited.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Strategic Director of Finance and Customer Services' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Authority to cease to continue as a going concern.

In our evaluation of the Strategic Director of Finance and Customer Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Authority's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Authority. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities.

We assessed the reasonableness of the basis of preparation used by the Authority and Authority's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Strategic Director of Finance and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Strategic Director of Finance and Customer Services with respect to going concern are described in the 'Responsibilities of the Authority, Strategic Director of Finance and Customer Services and Those Charged with Governance for the financial statements' section of this report.

Other information

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

E. Audit opinion (draft)

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matters required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority, the other information published together with the financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;

- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

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

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

As explained in the Statement of Responsibilities set out on section 3 of the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director of Finance and Customer Services. The Strategic Director of Finance and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director of Finance and Customer Services, determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

E. Audit opinion(draft)

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Authority and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015 and the Local Government Act 2003.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations;
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Authority's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:
 - closing journals posted during the preparation of the financial statements
 - material and unusual journals which fall outside of the auditor's expectations which are considered as high-risk journals

- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Strategic Director of Finance and Customer Services has in place to prevent and detect fraud;
 - journal entry testing, with a focus high risk journal, such as, posted by senior management, journals with unusual attributes, journals without any descriptions, journals posted by staff not in the approved list of journals posting, journals that do not balance and journals posted in periods 12 & 13, which are material and not reoccurring or common postings;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of land and buildings and defined benefit pensions liability valuations.
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Assessment of the appropriateness of the collective competence and capabilities of the Authority's engagement team included consideration of the engagement team's
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government sector
 - understanding of the legal and regulatory requirements specific to the Authority, including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Authority's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - The Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

E. Audit opinion (draft)

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

Matter on which we are required to report by exception – the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Authority's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Authority

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Authority plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Authority ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Authority uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Authority has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

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

We cannot formally conclude the audit and issue an audit certificate for Rotherham Metropolitan Borough Council for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report,
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements.

Use of our report

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

Signature:

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

Leeds

Xx November 2021 TBC

F. Audit letter in respect of delayed VFM work

Councillor Cllr Baker-Rogers
Chair of Audit Committee
Rotherham Metropolitan Borough Council
Rotherham Town Hall
Moorgate Street, Rotherham
S60 2TH

22 September 2021

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Whitehall Riverside
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Dear Cllr Baker - Rogers

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements.

As a result, we have therefore not yet issued our Auditor's Annual Report, including our commentary on arrangements to secure value for money. We will be working on our VFM arrangements review of the Council over the coming months and expect to report our findings to management and the Audit and Governance Committee before the end of February 2022.

For the purposes of compliance with the 2020 Code, this letter constitutes the required audit letter explaining the reasons for delay.

Yours faithfully

Gareth

Gareth Mills
Key Audit Partner and Engagement Lead for Rotherham Metropolitan Borough Council

