Rotherham Metropolitan Borough Council 2021-22 Audit Plan

Year ending 31 March 2022

18 July 2022

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Council or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Key matters

Factors

Financial developments, Covid-19 and the overall economic environment

The Council continues to operate in an uncertain financial environment. The Council, as with all local authorities, will need to continue to plan with little certainty over funding in the medium term whilst also recovering from the impact of the Covid-19 Pandemic.

2021-22: The Revenue Budget 2021-22 was approved by Council on 3 March 2021. A budget of £235.7m was set for General Fund services. This excluded schools' budgets and the Housing Revenue Account (HRA). The 2021- 22 revenue budget was supported by the use of £7.5m from the budget and financial strategy reserve. However, given the availability of £14m of Covid funding covering the majority of the Council's Covid related costs, the use of this reserve has not been required. There was a £4.1m directorate related overspend, however, the Council's final outturn position was an overall £2.4m underspend.

Dedicated School Grant (DSG) Deficit: A further service demand pressure faced by the Council relates to Special Educational Needs and Disability (SEND) costs in the Borough. The financial deficit on the Council's DSG 'reserve account' as of 31 March 2022 was £12.8m. There was a brought forward deficit of £21.2m. The in-year deficit for year ended 31 March 2022 was £94.7k.

The Council has agreed a way forward on eliminating the cumulative DSG deficit by 2025-26. This agreement with the Department for Education (DfE) is called a 'Safety Valve' agreement. As a result of the agreement, during 2021-22 the Council received funding of £8.5m from the DfE which brought the closing DSG deficit balance down to £12.8m. Subject to Council's full compliance in line with the agreement, the department has agreed to fund the Council between 2021-22 to 2025-26 as part of this deficit elimination plan. This is a good outcome, demonstrating the Council's continuing and positive engagement with the DfE and other stakeholders. We will undertake further work on the Council's 2021-22 performance, including the DSG deficit as part of our financial statement audit and value for money review.

2022-23 and beyond: In February 2022, the Council published its budget for 2022-23. It also published the Medium-Term Financial Strategy (MTFS) for three years covering up to 2025-26 alongside the 2022-23 balanced budget. The updated position on delivery of savings was presented to Cabinet in December 2021, as part of the MTFS update, this outlined £11.5m of agreed savings to be delivered over the MTFS period. Further work in this area will be undertaken as part of our 2021-22 VFM work.

Since the approval of the budget in February 2022 the financial outlook has worsened with inflation posing a significant risk to the budget and a war in Europe which is impacting the global economy including the UK. The impact of rising energy, fuel and other prices is impacting on both revenue and capital budgets. The increase in the cost of living could also impact on collection rates for council tax and business rates. The Council is keeping a close scrutiny on its MTFS during the summer of 2022 to capture the longer-term impact of these challenges in public services in preparation for the 2023-24 budget setting process.

Climate Change

Rotherham as a Borough has experienced the direct impact of climate change in recent years, with devastating floods in 2007 and 2019. The Council has taken steps to mitigate the impact of climate change in recent years. In October 2019, the Council declared a Climate Emergency and set out a plan of action to reduce carbon emissions generated by the Council, businesses, other organisations and individuals across the borough. The following targets have been set to reduce carbon emissions in Rotherham:

- The Council's carbon emissions to be at net zero by 2030 (NZ30)
- Rotherham-wide carbon emissions to be at net zero by 2040 (NZ40)

To achieve these targets, the Council has a Climate Change Plan with seven themes covering, energy, housing, transport, waste, build and natural environment, influence and engagement. The Council is working with partners to achieve this.

Our response

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set further in our Audit Plan, has been agreed with the Strategic Director – Finance and Customer Services (s151 officer) and Assistant Director Financial Services.
- We will consider your arrangements for managing and reporting your financial resources as part of our work in completing our Value for Money work.
- We will continue to provide you with sector updates via our Audit Committee updates.
- We will continue to review the Council's financial position and the on-going impact of Covid-19 and the economic environment, through our regular discussions with the Strategic Director – Finance and Customer Services (s151 officer) and Assistant Director Financial Services.
- Our VFM work will also consider the arrangements in place for managing and reducing the DSG deficit and Council's continues work on climate change matters in Rotherham including progress against its Climate Change Plan.

2. Introduction and headlines

Purpose

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

Respective responsibilities

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

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Council and group's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee); and we consider whether there are sufficient arrangements in place at the Council for securing economy, efficiency and effectiveness in your use of resources. Value for money relates to ensuring that resources are used efficiently to maximise the outcomes that can be achieved.

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

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

Significant risks

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

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

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

Materiality

We have determined planning materiality to be £8.88m (PY £8.75m) which equates to 1.5% of your gross expenditure for cost of services for 2020-21. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £444k (PY £437k).

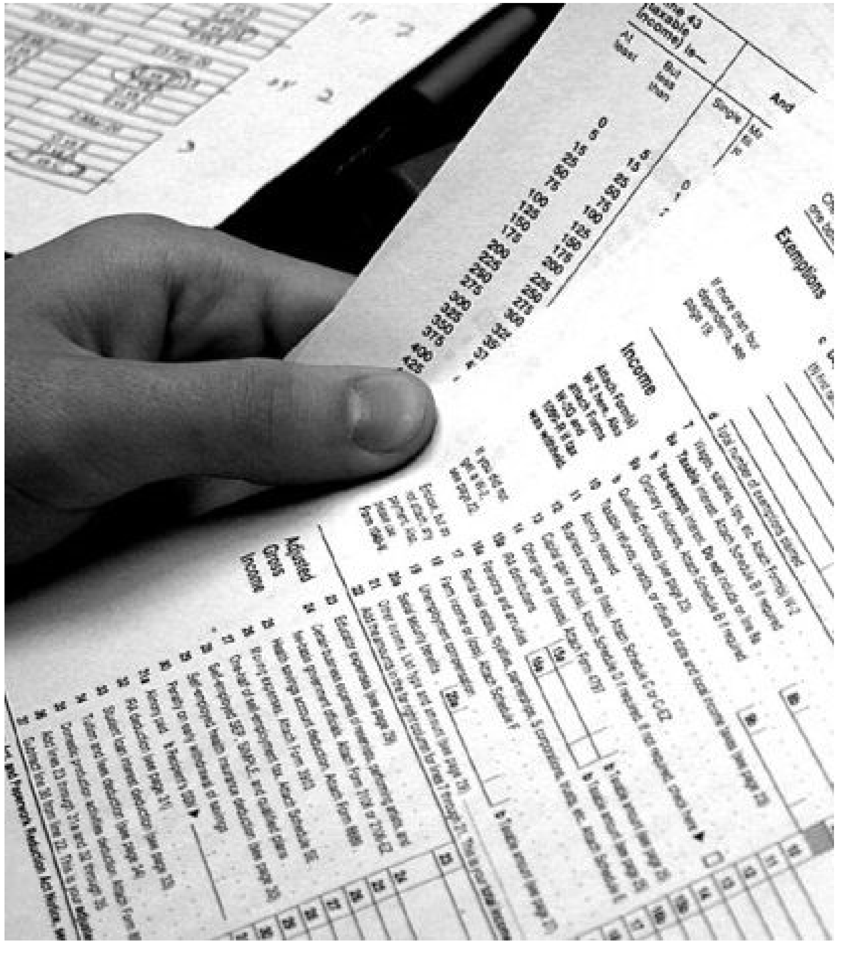
Following publication of the 2021-22 draft accounts, and prior to starting our detailed audit work, we will further revisit the materiality calculation and update as necessary. Any changes to our materiality levels will be detailed in our ISA260 Report later this year.

Value for Money arrangements

In line with the NAO's VFM guidance, our planning risk assessment work has identified one possible significant weakness in the Council's arrangements. This is in relation to the Ofsted and CQC Inspection (July 2021 report) on implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham. We also identified this as a key recommendation issue in our 2020-21 VFM work and reported this in our Auditor's Annual Report. Considering this inspection was carried out and reported in 2021-22, we consider this a continuing issue in the Council's VFM arrangements for 2021-22. As part of our 2021-22 VFM review, we will follow up the Council's actions in relation to the Ofsted findings. Further details of this issue is included in Section Eight of this Audit Plan.

Our risk assessment regarding your arrangements to secure value for money has not identified any other risks of significant weakness at this stage other than what is reported above. We will keep this under review as our audit progresses.

Introduction and headlines cont.



Audit logistics

Our audit planning work has been conducted offsite in March and April. In addition, we have continued to meet regularly with the Chief Executive and senior members of the finance team throughout 2021-22 and we will continue to do so.

Our final accounts audit will take place in August through to October. Our finalisation and completion work is targeted to take place in November in advance of the national deadline for audited accounts of 30 November 2022.

Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report (due to be presented to the Audit Committee on 29 November) and our Auditor's Annual Report on the Council's VFM arrangements (targeted to be presented to the Audit Committee in January 2023).

Our fee for the audit will be £179,188 (PY: £180,939) for the Council, subject to the Council delivering a good set of financial statements and working papers.

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

3. Significant risks identified

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

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure	Council	Revenue Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including at 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 Authority, we have determined that the risk of fraud arising from expenditure recognition can be rebutted, because: • there is little incentive to manipulate expenditure for a Council where services are provided to the public through taxpayers funds • there is no significant pressures on general fund reserves of the Council • Covid -19 funding has been sufficiently provided for additional expenditure and loss of income during 2020-21 and into 2021-22.	As we do not consider this to be a significant risk for the Authority, we will not be undertaking any specific work in this area other than our normal audit procedures which include: Accounting policies and systems • Evaluate the Council's accounting policies for recognition of income and expenditure for it's material income and expenditure streams and compliance with the CIPFA Code • Update our understanding of the Council's business processes associated with accounting for income and expenditure. Fees, Charges and other service income • Agree, on a sample basis, income and year end receivables from other income supporting evidence. Taxation and non specific grant income • Income for national non –domestic rates and council tax is predictable and therefore we would conduct substantive analytical procedures • For other grants we will sample test items for supporting evidence and check the appropriateness of the accounting treatment in line with the CIPFA Code. Expenditure • Agree, on a sample basis, non pay expenditure and year end payables to supporting evidence • Undertake detailed substantive analytical procedures on pay expenditure We will also design and carry out appropriate audit procedures to ascertain that recognition of income and expenditure is in the correct accounting period using for example cut off testing.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Council	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. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied and made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of land and buildings	Council	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 (some £967m as at 31 March 2021) 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.	We will: • evaluate management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluate the competence, capabilities and objectivity of the valuation expert • discuss with the valuer the basis on which the valuation was carried out • challenge the information and assumptions used by the valuer to assess completeness and consistency with our understanding • engage our own auditor's expert valuer to assess the instructions issued to the Council's valuer, the Council's valuer's report and the assumptions that underpin the valuation • test revaluations made during the year to see if they had been input correctly into the Council's asset register • evaluate the assumptions made by management for those assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value at year end • consider, where the valuation date is not 31 March 2022 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2022.

Significant risks identified

Risk	Risk relates to	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net liability	Council	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 (£465m at 31 March 2021) in the Council's balance sheet and the sensitivity of the estimate to changes in key assumptions. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • update 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 • evaluate the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation • assess the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability • test the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertake procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtain assurances from the auditor of the South Yorkshire Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements.

4. Accounting estimates and related disclosures

The Financial Reporting Council issued an updated ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* which includes significant enhancements in respect of the audit risk assessment process for accounting estimates. We identified one recommendation in our 2020-21 audit in relation to the Council's estimation process for the valuation of land and buildings.

Introduction

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

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

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

Specifically do Audit Committee members:

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

Accounting estimates and related disclosures

Additional information that will be required

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2022.

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

- Valuations of land and buildings, council dwellings
- Depreciation
- Year end provisions and accruals, specifically for demand led services such as Adult's and Children's services
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Liabilities under PFI schemes and finance lease liabilities
- Valuation of level 2 and level 3 investments.

The Council's Information systems

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

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

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

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

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

Estimation uncertainty

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

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

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

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

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

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

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

Planning enquiries

As part of our planning risk assessment procedures, we previously sent letters of enquiry to management during April 2022. We recommend management responses are provided to us shortly and considered by the Audit Committee before finalisation of the accounts.

Further information

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

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

5. Other matters

Other work

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

- We read your Narrative Report and Annual Governance Statement and any other information published alongside your financial statements to check that they are consistent with the financial statements on which we give an opinion and our knowledge of the Council.
- We carry out work to satisfy ourselves that disclosures made in your Annual Governance Statement are in line with requirements set by CIPFA.
- We carry out work on your consolidation schedules for the Whole of Government Accounts process in accordance with NAO group audit instructions.
- We consider our other duties under legislation and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2021-22 financial statements, consider and decide upon any objections received in relation to the 2021-22 financial statements;
  - issuing a report in the public interest or written recommendations to the Council under section 24 of the Local Audit and Accountability Act 2014 (the Act).
  - application to the court for a declaration that an item of account is contrary to law under section 28 or a judicial review under section 31 of the Act
  - issuing an advisory notice under section 29 of the Act
- We certify completion of our audit.

Other material balances and transactions

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

6. Materiality

The concept of materiality

Materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the gross expenditure in cost of services of the Council for prior year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £8,888k (PY £8,750k), which equates to 1.5% of your gross expenditure in cost of services for the prior year.

Following publication of the 2021-22 draft accounts, and prior to starting our detailed audit work, we will further revisit the materiality calculation and update as necessary. Any changes to our materiality levels will be detailed in our ISA260 Report later this year.

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

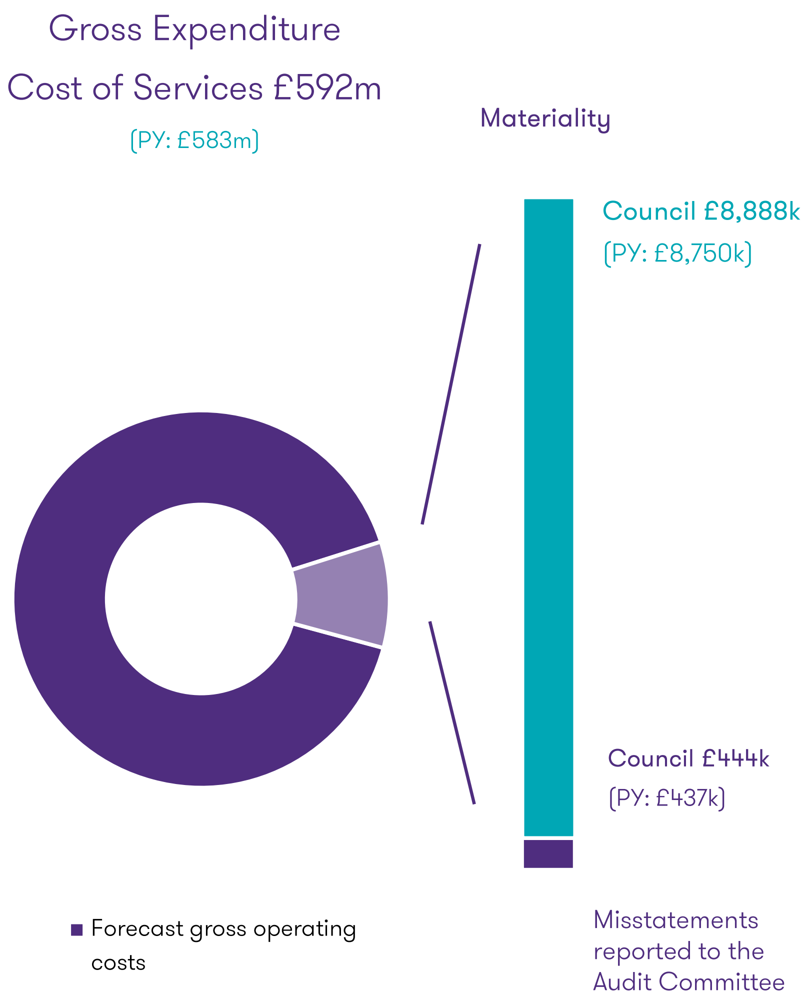
We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the group and Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £444k (PY £437k) for the Council.

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



7. IT audit strategy

In accordance with ISA (UK) 315, we are required to obtain an understanding of the information systems relevant to financial reporting to identify and assess the risks of material misstatement. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design of ITGCs related to security management; technology acquisition, development and maintenance; and technology infrastructure. Based on the level of assurance required for each IT system the assessment may focus on evaluating key risk areas ('streamlined assessment') or be more in depth ('detailed assessment').

The following IT systems have been currently identified to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment. We will revisit this during our detail audit work stage as necessary.

IT system	Audit area	Planned level IT audit assessment
ERP financial system	Financial reporting	• ITGC assessment (design and implementation) • No reliance on operating effectiveness of IT controls
Northgate: (Revenues & Benefits system)	Council Tax, Business Rates, Benefits	• ITGC assessment (design and implementation) • No reliance on operating effectiveness of IT controls
iTrent (Payroll)	Payroll	• ITGC assessment (design and implementation) • No reliance on operating effectiveness of IT controls

8. Value for Money arrangements

Approach to Value for Money work for 2021-22

The National Audit Office(NAO) issued updated guidance for auditors in April 2020. The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources . When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. These are as set out below:

Improving economy, efficiency and effectiveness

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

Financial Sustainability

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

Governance

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

Possible Significant Weakness – Implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham

Our planning and risk assessment work has identified one possible significant weakness in the Council's arrangements as a result of the Ofsted and CQC inspection (July 2021 report) on implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham.

Background to this issue:

In July 2021, Ofsted and the Care Quality Commission (CQC) conducted a joint inspection of the local area of Rotherham. This was to assess the effectiveness of the borough in implementing the special educational needs and/or disabilities (SEND) reforms as set out in the Children and Families Act 2014. The inspection was led by Ofsted, supported by a team of inspectors from the CQC. Their report was issued in November 2021. As a result of the findings, and in accordance with the Children Act 2004 (Joint Area Reviews) Regulations 2015, Her Majesty's Chief Inspector (HMCI) determined that a Written Statement of Action (WSOA) was required because of significant areas of weakness in the area's practices and arrangements.

HMCI also determined that the Council and the Clinical Commissioning Group (CCG) were jointly responsible for submitting the written statement to Ofsted. In reaching their judgements, inspectors took account of the impact of the Covid-19 pandemic on the SEND arrangements in the borough. More detailed findings of this inspection and the full report can be obtained from Ofsted website.

As a result of these findings from Ofsted and CQC, our view is there is a possible significant weakness in the Council's arrangements in relation to improving economy, efficiency and effectiveness in Rotherham in implementing special educational needs and /or disabilities (SEND) reforms as set out in the Children's and the Families Act 2014.

We made a key recommendation on this issue in our 2020-21 Auditor's Annual Report (AAR). As part of our 2021-22 VFM work we will:

- review the Council's actions against the findings from the Ofsted report and our key recommendation
- review communications between the Council and CQC/Ofsted and other key stakeholders regarding the Council's actions to improve and implement SEND reforms.

8. Value for Money arrangements

Other areas of focus

We have not identified any other risks of significant weaknesses from our initial planning work. We will continue our review of your arrangements, including reviewing your Annual Governance Statement, before we issue our auditor's annual report.

Whilst we have not identified any possible significant weaknesses in arrangements other than described above, we will, as part of our VFM work consider the progress and arrangements in place in actioning the DSG deficit recovery plan (see page 3).

It is also important to note that our VFM risk assessment will continue until we issue our 2021-22 Auditor's Annual Report. We will inform you of any changes to our risk assessment, in our Audit Findings (ISA260) Report.

9. Audit logistics and team

Gareth Mills, Key Audit Partner & Engagement Lead

Gareth leads our relationship with you and takes overall responsibility for the delivery of a high quality audit, ensuring the highest professional standards are maintained and a commitment to add value to the Council.

Thilina De Zoysa, Senior Engagement Manager

Thilina plans, manages and leads the delivery of the audit, is your key point of contact for senior finance team. Thilina is also your first point of contact for discussing any key issues of the audit.

Greg Charnley, Engagement Manager

Greg assists in planning, supervising and delivering the audit fieldwork liaising with your finance teams, ensuring that the audit is delivered effectively and efficiently. Greg also co-ordinates with the audit team on delivery of field work.

Audited body responsibilities

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

Our requirements

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

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

10. Audit fees

In 2017, PSAA awarded a contract of audit for the Council to begin with effect from 2018-19. The fee agreed in the contract was £108,438. Since that time, there have been a number of developments, particularly in relation to the revised Code and ISA's which are relevant for the 2021-22 audit.

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing, as detailed in section four in relation to the updated ISA (UK) 540 (revised): Auditing Accounting Estimates and Related Disclosures.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting. Our latest results in our inspections with the FRC are included at Appendix A. Furthermore, we have engaged an audit expert to improve the level of assurance we require for property valuations estimates, which has been included in our proposed audit fee. Our proposed work and fee for 2021-22, as set out below, is detailed overleaf and has been agreed with the Strategic Director – Finance and Customer Services.

	Actual fee 2020-21	**Proposed fee 2021-22**
Rotherham MBC Audit	£180,939	£179,188
Total audit fees (excluding VAT)	£180,939	£179,188

Assumptions

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

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

Relevant professional standards

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

11. Independence and non-audit services

Auditor independence

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

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard (Revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

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

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services (currently none) to be undertaken or undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Council's policy on the allotment of non-audit work to your auditors.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings (ISA260) Report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

Service	Fees £	Threats	Safeguards
Audit related:			
Certification of Housing Benefit [See note below]	25,000*	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £25,000 in comparison to the total fee for the audit of £179,188 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.
Non-audit related:			
None	-	-	-

NOTE on Housing Benefit certification fees:

** The £25,000 noted above is the base fee for the 2021-22 Housing Benefit Subsidy certification. In addition, as in prior years, for each 40+ HB testing undertaken there will be an additional fee to be raised. These will be discussed and agreed with management as appropriate.*

As at the date of this Audit Plan, we are not aware of any other 2021-22 non-audit related grant certification work to be delivered by us.

Appendix A: Financial Reporting Council's (FRC) quality inspection

On 29 October, the FRC published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here: FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our results over the past three years are shown in the table below:

Grade	Number 2018-19	Number 2019-20	Number 2020-21
Good with limited improvements (Grade 1 or 2)	1	1	6
Improvements required (Grade 3)	2	5	3
Significant improvements required (Grade 4)	1	0	0
Total	4	6	9

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

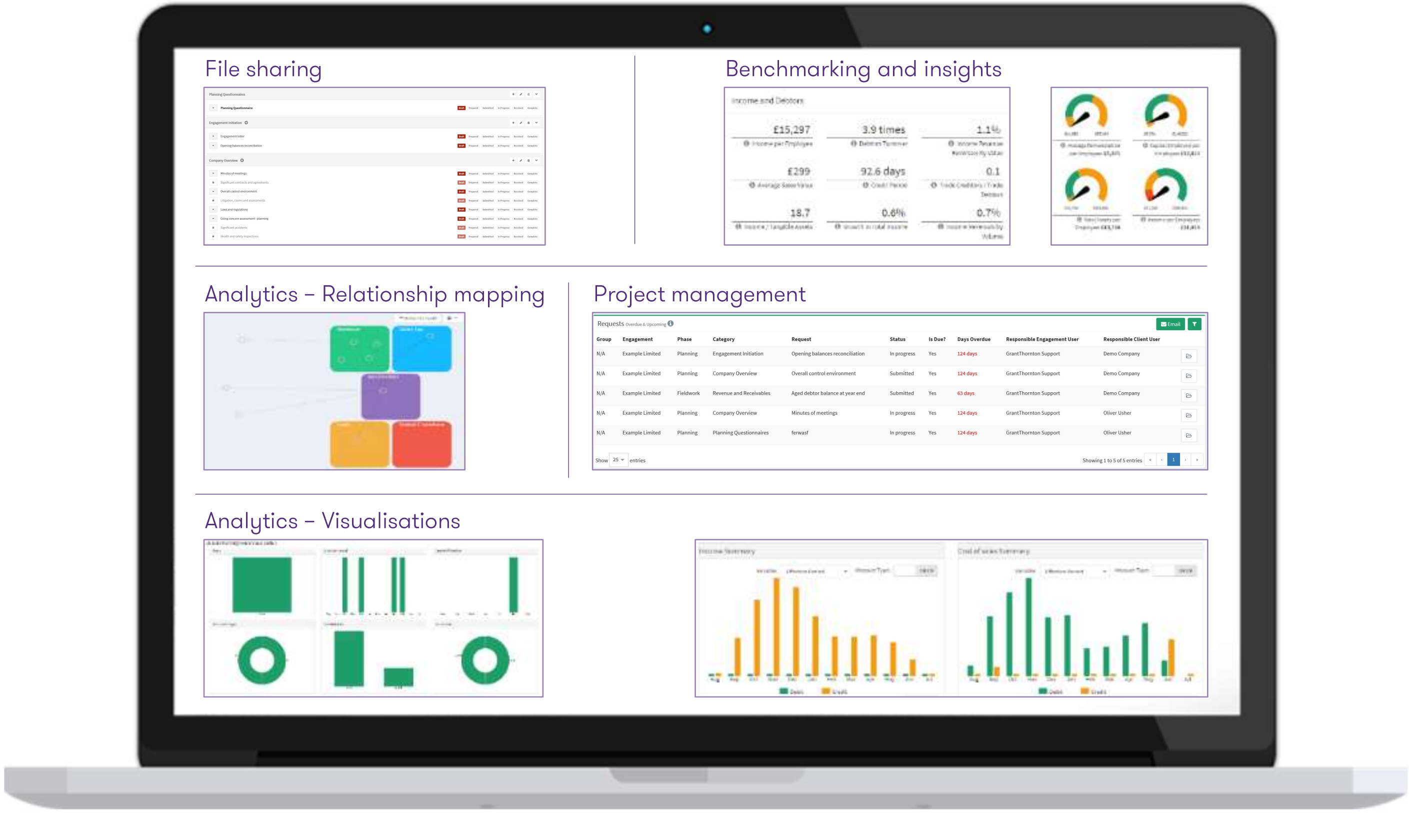
Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

Appendix B: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Function	Benefits for you
Data extraction	Providing us with your financial information is made easier
File sharing	An easy-to-use, ISO 27001 certified, purpose-built file sharing tool
Project management	Effective management and oversight of requests and responsibilities
Data analytics	Enhanced assurance from access to complete data populations



Grant Thornton's Analytics solution is supported by Inflo Software technology

Appendix B: Our digital audit experience

A key component of our overall audit experience is our comprehensive data analytics tool, which is supported by Inflo Software technology. This tool has a number of key functions within our audit process:

Data extraction

- Real-time access to data
- Easy step-by-step guides to support you upload your data

File sharing

- Task-based ISO 27001 certified file sharing space, ensuring requests for each task are easy to follow
- Ability to communicate in the tool, ensuring all team members have visibility on discussions about your audit, reducing duplication of work

Project management

- Facilitates oversight of requests
- Access to a live request list at all times

Data analytics

- Relationship mapping, allowing understanding of whole cycles to be obtained quickly
- Visualisation of transactions, allowing easy identification of trends and anomalies

How will analytics add value to your audit?

Analytics will add value to your audit in a number of ways. We see the key benefits of extensive use of data analytics within the audit process to be the following:

Improved fraud procedures using powerful anomaly detection

Being able to analyse every accounting transaction across your business enhances our fraud procedures. We can immediately identify high risk transactions, focusing our work on these to provide greater assurance to you, and other stakeholders.

Examples of anomaly detection include analysis of user activity, which may highlight inappropriate access permissions, and reviewing seldom used accounts, which could identify efficiencies through reducing unnecessary codes and therefore unnecessary internal maintenance.

Another product of this is identification of issues that are not specific to individual postings, such as training requirements being identified for members of staff with high error rates, or who are relying on use of suspense accounts.

More time for you to perform the day job

Providing all this additional value does not require additional input from you or your team. In fact, less of your time is required to prepare information for the audit and to provide supporting information to us.

Complete extracts from your general ledger will be obtained from the data provided to us and requests will therefore be reduced.

We provide transparent project management, allowing us to seamlessly collaborate with each other to complete the audit on time and around other commitments.

We will both have access to a dashboard which provides a real-time overview of audit progress, down to individual information items we need from each other. Tasks can easily be allocated across your team to ensure roles and responsibilities are well defined.

Using filters, you and your team will quickly be able to identify actions required, meaning any delays can be flagged earlier in the process. Accessible through any browser, the audit status is always available on any device providing you with the information to work flexibly around your other commitments.

Appendix C: Progress against prior year audit recommendations

We identified the following issues in our 2020-21 audit of the Council's financial statements, which resulted in three recommendations being reported in our 2020-21 Audit Findings (ISA260) Report. We will report any updates on these recommendations in our 2021-22 Audit Findings Report in November 2022. We have included these for your information and completeness in this Audit Plan.

Assessment	Issue and risk previously communicated	Recommendations
Medium	(1) Minimum Revenue Provision: We have reviewed the Council's approach to MRP as described on pages 17 and 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 2015-16. 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. 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. 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.	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. Management response November 2021: *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.* Management update July 2022: *The Council continues to keep its MRP policy under review, ensuring that it is in accordance with statutory guidance and is considered to be reasonable and appropriate.*

Assessment	Issue and risk previously communicated	Recommendations
Medium	(2) Other Land and Buildings Valuation date: 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. 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. 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.	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. The Council should consider moving its valuation date for land and buildings closer to the balance sheet date of 31 March. Management response November 2021: *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.* Management update July 2022: *The Council has reviewed is approach to the valuation of Land and Buildings, to identify asset classifications that can be valued at a later date in the financial year than 1st April, in order to help de-risk the valuation estimates. A result of this review has been that the Council have valued a number of assets, valued on a Depreciated Replacement Cost (DRC) basis, as at the 1 January 2022. Looking forward, the Council will continue to move valuation dates to later in the financial year where possible, however, for many of the Council's assets due for valuation this was not possible for 2021-22 as they had already been valued before this audit recommendation was presented to Audit Committee as part of the ISA260 for the Council's 2020-21 accounts.*
Low	(3) Over disclosure of Related Party Transactions – Note 17 to the statement of Accounts: 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. In all these circumstances, the Council had over-disclosed when some of these disclosures were not required to be reported under IAS 24.	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. Management response November 2021: *Noted. The Council is comfortable with the level of information disclosed within the Statement of Accounts and does not intend to adjust this note.* **GT update July 2022:** Subject to our 2021-22 audit findings, this may be a reporting matter again in our ISA260 Report in November 2022.

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