Rotherham Metropolitan Borough Council 2022-23 Audit Plan

Year ending 31 March 2023

30 May 2023

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

National context

Local Government funding continues to be stretched with increasing cost pressures due to the cost of living crisis, including higher energy costs, increasing pay demands, a rise in interest rates, higher agency costs and increases in supplies and key services, such as adult social care and children's services.

Local authority front-line services play a vital role in protecting residents from rising costs; preventing the most vulnerable from falling into destitution and helping to build households long-term financial resilience. At a local level, councils are also essential in driving strong and inclusive local economies, through their economic development functions such as integrating skills with employment provision and prioritising vulnerable households to benefit from energy saving initiatives. Access to these services remains a key priority across the country, but there are also pressures on the quality of services. These could include further unplanned reductions to services and the cancellation or delays to major construction projects such as new roads, amenities and infrastructure upgrades to schools, as well as pothole filling. Overall, Local Government continues to operate in a very challenging environment, both financially and operationally.

Local context:

The Council's financial performance

2021-22: As reported in our 2021-22 Auditor's Annual Report (AAR), the Council's 2021-22 final outturn performance was a £2.4m underspend against 2021-22 budget. This was helped by the Council being able to apply more Government funding to the outturn position than originally planned.

2022-23: The Council approved a net budget for 2022-23 which totalled £259.7m with a savings target of £4.8m to achieve a break-even position. At the end of Month 9 (Dec 2022), the Council was predicting an operational overspend of £8.4m. This is £1.1m improvement on the November 2022 position (month 8) reported to Cabinet in January 2023. This is derived from the core directorates services forecasting a year-end overspend of £2.9m and on the General Fund, there is a net £5.5m of estimated overspend. The General Fund overspend was unbudgeted cost, resulting from the wider financial impact of inflation, energy price increases and the national pay award. These costs could not have been projected within the Council's Medium Term Financial Planning back in March 2022 when 2022-23 budget was approved. Whilst increasing energy prices and inflation will impact the Council's costs in provision of services, there will be some mitigation in future years by increased core funding, as business rates income is indexed to the rate of inflation.

At the time of producing this Plan (May 2023), our discussions with senior management note the final outturn position is yet to be finalised for 2022-23. However, it is anticipated that the £8.4m overspend forecast at Month 9 is expected to improve by 31 March 2023. This position will be first reported to Cabinet in June as part of Finance update report.

The gap created by 2022-23 overspend is to be funded via the Council's general fund reserves, namely Transformation Reserve and Budget and Financial Strategy Reserve as approved by Council as part of 2023-24 Budget and Council Tax report. According to the latest audited accounts for 2021-22, the Council has general fund and earmarked reserves excluding DSG/Covid-19 reserves of c67.2m. This includes £25m of general fund minimum working capital balance. In addition, the Council has earmarked Covid-19 grant reserves of £11.8m as at 31 March 2022. On the savings target set for 2022-23, a total of £4.9m of savings have been delivered against the planned £4.8m for 2022-23, by month 9.

Key matters

Medium Term Financial Strategy (MTFS) and 2023-24 approved budget: The current three-year MTFS which covers the period until 2025-26, was approved in March 2023 by the Council, alongside the 2023-24 budget. There is a balanced budget for 2023-24 after the setting of savings target of £8.3m. For 2024-25 and 2025-26 balanced budgets will require savings target to rise to £11.4m for 2024-25, reducing to £9.9m moving forward.

The 2023-24 budget was approved by the Council on 1 March 2023 and includes an increase of 2% in basic council tax and an increase of 2% for the Adult Social Care precept. The budget also highlighted key challenges for 2023-24, including increasing inflation, anergy prices , wider economic conditions and social care pressures.

Dedicated School Grant (DSG) deficit and Safety Valve Funding (SVF):

As reported in our VFM work in both 2020-21 and 2021-22, the Council was awarded £20.5m by the DfE in 'safety valve' funding over five-year period up to 2025-26. This is to deal with its significant deficit on the DSG reserve which was again reported in our 2020-21 and 2021-22 AARs. This was a positive reflection of the DfE's assessment in the Council's arrangements around DSG deficit reduction. This was the second year of SVF and Council's entitlement for 2022-23 was £3m, subject to achieving a small in year surplus for the year ended 31 March 2023. We understand the final DSG performance for the year ended 31 March 2023 was £0.7m. We have also been made aware that DfE have given the 2023-24 entitlement of £3m during 2022-23 , resulting a total of £6m funding in year ended 31 March 2023. This is £3m more than 2022-23 entitlement and we understand this cash advancement is in recognition of Council's good performance, in managing the DSG deficit.

Audit reporting delays – context

In a report published in January 2023, the NAO highlighted that since 2017-18 there has been a significant decline in the number of audited local government body accounts including audit opinions published by the required deadlines set by the government. The NAO outlined a number of reasons for this and proposed actions.

In March 2023, Grant Thornton published '*About time*?', which explored the reasons for the delay in publication of audited local authority accounts. The report explores several of the causes of delay and the steps which might be taken to reduce the incidence of delays. These steps relate to systems leadership, holding both authorities and auditors to account for their performance, a continued focus on the quality of accounts preparation and audit, and the effective engagement between auditors and audited bodies. The Grant Thornton report made a number of recommendations for improving timeliness in publishing audited accounts. Copies of the Grant Thornton report have been already circulated to members of the Audit Committee in March 2023.

It is pleasing to note that significant audit delays have not been an occurrence at Rotherham Council. This is clearly evident from the last four years of audits that are now fully closed. We would hope this performance continues in 2022-23 and we will continue to work closely and effectively with senior management and the Audit Committee. We verbally updated the Audit Committee with our proposed timetable for the 2022-23 audit in our progress update to the Committee in March 2023. This is set out in more detailed in section 9 and page 19 of this Plan.

Key matters

Our Responses on key Council matters

- As a firm, we are absolutely committed to high standards and continually improving audit quality and financial reporting in the local Council sector. Our proposed work and fee, as set out further in this Audit Plan, has been agreed with Strategic Director - Finance and Customer Services.
- We will continue to review the Council's financial position and performance through our regular discussions with the Strategic Director - Finance and Customer Services, including budget monitoring, anticipated revisions to the MTFS, management of general fund and useable reserves and DSG deficit maintenance and reduction plans
- We will assess the continuing accounting treatment of DSG Safety Valve Funding in your 2022-23 financial statements and evaluate whether it continues to comply with current LG Code and relevant Statutory Instrument guidance
- We will continue to discuss Council's strategic direction and associated challenges with the Chief Executive, Strategic Director - Finance and Customer Services and Assistant Director Financial Services through our regular liaison meetings
- We will continue to consider your arrangements for managing and reporting your financial resources as part of our 2022-23 audit of your financial statements and value for money work (VFM). This will also cover our work on DSG deficit reduction plans that are continuing.
- Our VFM work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness
- We will follow up progress in implementing the actions agreed in respect of matters identified in 2021-22 audit work (as relevant) relating to the financial statements audit as well as recommendations made as part of our 2021-22 review of your VFM arrangements
- We will continue to provide the Audit Committee with sector updates providing our insight on issues from a range of sources and other sector commentators. We will also participate in your Audit Committee training sessions and your peer review assessment
- We will continue to hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, discuss topical issues with our technical specialists and create networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. We continue to identify a significant risk in regard to the management override of controls (see page 9 which is our key response to this risk).

2. Introduction and headlines

Purpose

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

Respective responsibilities

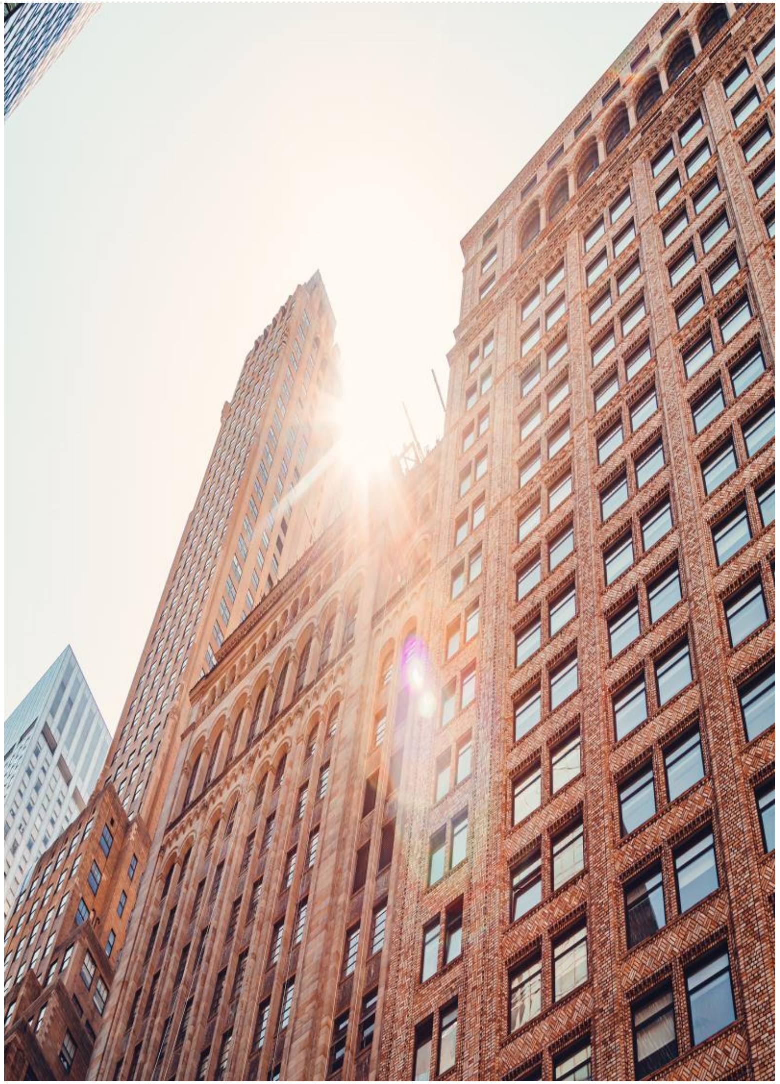
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments Limited (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 '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 in order to maximise the outcomes that can be achieved.

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

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



Introduction and headlines

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 balance.

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 £9,409k (PY £8,880k) for the Council, which equates to 1.5% of your prior year gross expenditure in cost of services for the Council.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors.

Clearly trivial has been set at £470k (PY £444k) for the audit.

We will reassess our materiality calculation upon receipt of your 2022-23 draft accounts.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money has identified one potential continuing risk of significant weakness at the planning stage.

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 have identified this as a significant weakness in both our 2020-21 and 2021-22 VFM work and raised a key recommendation.

At the time of this Audit Plan, we are unable to confirm whether this still is a significant weakness for 2022-23 as there has not been a formal follow up inspection by the regulators and subsequent reporting as yet. We will continue to review this issue as part of our 2022-23 VFM work and will report our finding to you in our Auditor's Annual Report (AAR), which we aim to finalise by 31 December 2023.

We have not identified any additional potential or actual significant weaknesses at this time.

More information on this potential significant weakness is reported at section eight.

We will continue to update our risk assessment until we issue our 2022-23 AAR.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this Plan.

Audit logistics

Our planning and interim audit work will take place during April and in late June to early July. Our final audit work will take place during late July to October.

Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report (expected in November) and our Auditor's Annual Report on our VFM work (expected by December 2023).

Our proposed fee for the audit will be £178,688 (PY: £179,188) for the Council, subject to the Council delivering a good set of financial statements and working papers. More detail analysis of our fee is included at section 10.

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	Reason for risk identification	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition and expenditure - rebutted	**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 Council, 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 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 • Covid -19 funding has been provided for additional expenditure and loss of income in prior years • the culture and ethical frameworks of local authorities, including at the Council, mean that all forms of fraud are seen as unacceptable.	As we do not consider this to be a significant risk for the Council, we will not be undertaking any special audit 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, for example, undertaking cut off testing.

'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We have identified an increased incentive and opportunity for organisations in the public sector to manipulate their financial statements due to increasing financial pressures. 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.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide engagement teams with sufficient evidence to support their judgements and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto.

Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Closing valuation of land and buildings, including Council dwellings	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 (c£990m) 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 2023 for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2023.

'In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund balance	The Council's prior year 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 for 2021-22 was considered a significant estimate due to the size of the numbers involved (c£338m) 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 balance as a significant risk, which was one of the most significant assessed risks of material misstatement. The Council is an admitted body of South Yorkshire Pension Fund. We understand from our early discussions with management that South Yorkshire Pension Fund may be in a surplus position as at 31 March 2023, following the recent triennial valuation process. This situation may give rise to a net pension asset rather than a net pension liability.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net balance 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's 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 including the net pension balance, by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • evaluate the triennial pension fund valuation outcomes and assess the reasonableness and prudency in that overall valuation through our audit approach as applicable. Audit approach to be determined upon relevancy. • undertake procedures as relevant, if there is a movement from a net pension liability to a net pension asset and ensure that movement is materially correct, and any recognition in Council's financial statements is in line with applicable accounting standards • 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. 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 (as relevant to 2022-23 NAO guidance which is not yet published) 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 2022-23 financial statements, consider and decide upon any objections received in relation to the 2022-23 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.

5. Progress against prior year audit recommendations

There was one recommendation from our 2020-21 audit that was considered as work in progress in our 2021-22 Audit Findings (ISA26) Report. We have followed up the continuing progress against that recommendation below. Please note, in addition to below there were some specific recommendations on IT general controls as a result of work undertaken by IT audit team. We will follow up those recommendations as part of our 2022-23 Audit Finding Report (ISA260).

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
On going	**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. **Recommendation** 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 on 2021-22 valuations** *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.* ***GT update November 2022:*** *We are pleased that the management has actioned this and continues to explore to further extend this closer to the year-end date (31 March). We believe this would further enhance the process of other land and buildings valuation estimate as at the year end.* **Management response on 2022-23 valuations - Update May 2023** *The Council will continue to explore opportunities to push the valuation date further into the financial year to increase accuracy of the valuation as at the year end. However, the Council has to continue to give regard to the faster closure deadlines, as such this inhibits the Councils ability to take valuations too late in the financial year.*

6. 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.

Matter	Description	Planned audit procedures
1	**Determination** We have determined the planning financial statement materiality based on a proportion of the gross expenditure in cost of services of the Council for the financial year. We have determined planning materiality to be £9,409k (PY £8,880k) for the Council, which equates to 1.5% (PY 1.5%) of your prior year gross expenditure in cost of services.	We determine planning materiality in order to: – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements.
2	**Other factors** An item does not necessarily have to be large to be considered to have a material effect on the financial statements.	An item may be considered to be material by nature where it may affect instances when greater precision is required. – We have identified senior officer remuneration as a balance where we will apply a lower materiality level, as these are considered sensitive disclosures. We have set a materiality of £15,000 (PY £15,000).

Our approach to materiality

Matter	Description	Planned audit procedures
3	**Reassessment of materiality** Our assessment of materiality is kept under review throughout the audit process.	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. We will review our materiality calculation upon receipt of your 2022-23 draft accounts.
4	**Other communications relating to materiality 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.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £470k (PY £444k) 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.

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 area	Amount £000	Qualitative factors considered
Materiality for the financial statements	9,409	We have determined materiality at 1.5% of gross expenditure in cost of services based on the prior year audited financial statements. We consider this as the most appropriate criteria given stakeholders interest in the Council delivering its budget.
Performance materiality	6,586	Assessed to be 70% of financial statement materiality.
Trivial matters	470	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.

7. IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. 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 and implementation of relevant ITGCs.

The following IT system has been judged to be in scope at audit planning stage. Based on the financial statement audit approach we will perform the level of assessment required. We will keep this under review as the audit progresses and will update our understanding if there are additional IT systems within the scope of the audit. We will report that to you including our assessments (as applicable) in our ISA(UK) 260 report.

IT system	Audit area	Estimated transaction values	Planned level IT audit assessment
E5 Financials	Core Financial reporting	Around £1 billion (estimated 2022-23)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Revenue, Expenditure, Procurement)
Northgate (Revenues & Benefits system)	Council Tax, Business Rates, Housing Benefits	Around £250m (estimated 2022-23)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Interface to E5 financial system)
iTrent	Payroll	Around £230m(estimated 2022-23)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Interface to E5 financial system)
NEC Housing	Housing Revenue Account	Around £85m (estimated 2022-23)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (interface to E5 financial system)

8. Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2023

The National Audit Office (NAO) issued its latest Value for Money guidance to auditors in January 2023. The Code expects auditors to consider whether a body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are expected to report any significant weaknesses in the body's arrangements, should they come to their attention. In undertaking their work, auditors are expected to have regard to three specified reporting criteria. These are as set out below:

Financial Sustainability

How the body plans and manages its resources to ensure it can continue to deliver its services.

Governance

How the body ensures that it makes informed decisions and properly manages its risks.

Improving economy, efficiency and effectiveness

How the body uses information about its costs and performance to improve the way it manages and delivers its services.

Potential Significant Weakness - Ofsted and CQC Inspection on implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham.

Our risk assessment regarding your arrangements to secure value for money has identified one potential continuing risk of significant weakness at the planning stage. This is in relation to the Ofsted and CQC Inspection (July 2021 report) on implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham.

As you are aware from our previous reporting to the Audit Committee, we have identified this as a significant weakness in both our 2020-21 and 2021-22 VFM work and raised a resulting key recommendation in line with the NAO guidance. At the time of this Audit Plan, we are unable to confirm whether this is a significant weakness for 2022-23 or not. We note the actions taken by the Council in response to the findings since July 2021 which were reported in our 2021-22 AAR VFM Report. However, no formal follow up inspection by the regulatory bodies has occurred to date. Regulator follow up inspections and subsequent reporting with any new findings are key part of our risk assessment regarding this issue. We will continue to review this as part of our 2022-23 VFM work and will report our findings to you in our Auditor's Annual Report (AAR), which we aim to finalise by 31 December 2023. During our 2022-23 VFM work, we will specifically focus on:

- Any CQC/Ofsted re-inspection and subsequent reporting by the regulators
- Two-way communications between the regulatory bodies and the Council regarding the progress made in addressing July 2021 report recommendations.

We have not identified any other potential significant weaknesses to date, other than what is reported above.

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, Engagement Senior Manager

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

Greg Charnley, Engagement Manager

Greg assists in supervising the audit fieldwork, liaising with your finance teams and our audit team, ensuring that the audit is delivered effectively and efficiently using his prior audit knowledge and experience.

Joseph Hanks , Engagement In-charge

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

Audited Entity 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 audited bodies. Where the elapsed time to complete an audit exceeds that agreed due to an entity 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 an entity 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 deadline you have agreed with us, including all notes and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

10. Audit fees and updated Auditing Standards, including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for the Council to begin with effect from 2018-19. 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 2022-23 audit. For details of the changes which impacted on years up to 2021-22 please see our prior year Audit Plans.

The major change impacting on our audit for 2022-23 is the introduction of ISA (UK) 315 (Revised) - Identifying and assessing the risks of material misstatement ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Council's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.
- Additional documentation of our understanding of the Council's business model, which may result in us needing to perform additional inquiries to understand the Council's end-to-end processes over more classes of transactions, balances and disclosures.
- We are required to identify controls within a business process and identify which of those controls are relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.
- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for a similar Council of your size, we estimate an initial increase of £6,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing.

The other major change to Auditing Standards in 2022-23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022-23, is detailed overleaf and has been agreed with the Strategic Director - Finance and Customer Services

Audit fees

	Actual Fee 2020-21 £	Actual Fee 2021-22 £	Proposed fee 2022-23 £
Rotherham Metropolitan Borough Council	£180,939	£179,188	£178,688
Total audit fees (excluding VAT)	**£180,939**	**£179,188**	**£178,688 Note 1**

Note 1

See detailed analysis at page 23.

Assumptions

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

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

Relevant professional standards

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

Audit fees – detailed analysis:

PSAA Scale fee for 2022-23	£124,688
Increased depth of audit work, lower materiality level and testing in order to meet the audit quality challenge of the regulator	£3,750
Enhanced audit procedures for Property, Plant and Equipment, including the use of an Auditor's Expert	£5,000
The revised Value for Money (VfM) approach, introduced under the new NAO Code in 2020-21 (after the 2017 PSAA tender)	£20,000
Increased audit requirements relating to ISA 540 Revised - Auditing Accounting Estimates and Related Disclosures	£6,000
Enhanced audit procedures for journals and grants testing, given the risk of management override of controls	£5,000
Enhanced audit procedures for Payroll – Change of circumstances	£500
Enhanced audit procedures for Collection Fund – reliefs testing	£750
Increased audit requirements of ISA 315 Revised - identifying and assessing the Risks of Material Misstatement	£6,000
Enhanced audit procedures for Infrastructure assets	£2,500
Additional testing within the Housing Revenue Account	£500
Additional work on 'local risks' for the audit, to reflect that the audit sits within the FRC population of a 'major' audit, including the material DSG deficit on financial statements, VFM work and accounting on Safety Valve Funding with associated disclosures.	£4,000
Total proposed audit fees 2022-23 (excluding VAT)	£178,688

Note: All variations to the scale fee will need to be approved by PSAA

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 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]*	39,675*	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 £39,675 in comparison to the total fee for the audit of £178,688 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 work and fees:*

In addition, as per prior years, for each 40+ HB testing undertaken, there will be additional fees to be raised. The value will be dependent on whether the detailed testing is performed by the Council and reperformed by us, or directly by Grant Thornton.

12. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management / those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and / or which results in material misstatement of the financial statements (not typically council tax fraud)		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), 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.

Grant Thornton