Rotherham Metropolitan Borough Council 2023-24 Audit Plan

Year ending 31 March 2024

17 June 2024

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

The national economic context continues to present challenges to the local government sector. There are increasing cost pressures nationally, such as a growing population and increasing demand for local government services, especially in adult and children's social care. Combined with inflationary pressures, pay demands and energy price rises, the environment in which local authorities operate is highly challenging. Local Government funding continues to be stretched and there have been considerable reductions in the grants received by local authorities from government.

Recently, we have seen the additional strain on some councils from equal pay claims, and there has been a concerning rise in the number of councils issuing s114 notices. These are issued when a council's Chief Financial Officer does not believe the council can meet its expenditure commitments from its income. Additionally, the levels of indebtedness at many councils is now highly concerning, and we have seen commissioners being sent in to oversee reforms at a number of entities.

Our recent value for money work has highlighted a growing number of governance and financial stability issues at a national level, which is a further indication of the mounting pressure on audited bodies to keep delivering services, whilst also managing transformation and making savings at the same time.

In planning our audit, we have taken account of this national context in designing a local audit programme which is tailored to your risks and circumstances.

Audit Reporting Delays

Against a backdrop of ongoing audit reporting delays and backlog (see further update at Section 15 of this Audit Plan) , in October 2023, PSAA found that only five local government accounts had been signed by the September deadline. In June 2023, the Public Accounts Committee (PAC) also produced a report setting out their concerns over these audit reporting delays. We issued our report About time? in March 2023 which explored the reasons for delayed publication of audited local authority accounts. In our view, to enable a timely sign off of the financial statements, it is critical that draft local authority accounts are prepared to a high standard and are supported by strong working papers.

It is pleasing to note that such audit delays have not been an occurrence at Rotherham Council and this backlog guidance is not applicable to this Council. This was clearly evident from the last five years of audits that are now fully closed. The audit for 2023-23 was closed in March 2024, one of the few such Councils to do so in the first quarter of this year. We would anticipate this performance continues in 2023-24 and we will continue to work closely and effectively with senior management and the Audit Committee. Our planned timetable for the 2023-24 audit is set out in more detailed at section 9 this Plan.

Key matters (continued)

Local context

The Council's financial performance

2022-23:

The Council set a balanced revenue budget position for 2022-23 of £259.7m, which was approved at Council meeting in March 2022. As reported to the Cabinet and Council, the global economic position significantly changed during 2022-23, with rising inflation and substantial increases in energy prices. As a result, significant overspends were forecast during 2022-23 in line with many other local authorities across the Country. The Financial Monitoring Report for Q3 of 2022-23 (December 2023) outlined the Council was predicting an overspend of £8.4m. Earlier Cabinet reporting in September 2022 indicated even higher overspend of £18.2m.

As a result of budgetary controls and financial management, the final outturn was an improvement at £7.3m but an overspend, nonetheless. There was a call on reserves to balance the Council's outturn position from the Transformation Reserve (£4.1m) and Budget and Financial Strategy Reserve (£3.2m). The Council delivered the agreed savings target of £4.4m during 2022-23

2023-24:

The Council approved a balanced budget of £302.2m in March 2023. We understand from our discussions with senior management that final detailed outturn for 2023-24 will be issued in July 20024. According to the latest reporting to the Cabinet (June 2024), there was an overspend of 0.1m (yet to be formally finalised) for the financial year ended 31 March 2024. This is an improved position from 2023-24 Q3 reporting to the cabinet, where the anticipated overspend was £1.2m. The overspend is to be funded from General Fund Reserves as earlier approved at Council.

Of the savings target of £4,344k for 2023-24, according to the latest published information to the Cabinet, the Council has overdelivered this by £54k, achieving an overall savings of £4,398k for 2023-24. This is due to over delivery of savings targets by £54k in Finance and Customer / Assistant Chief Executive Directorates, against a target of £611k and achieving savings of £665k, by the year end.

According to the latest audited accounts for 2022-23, the Council has general fund reserves balance of £62.6m. The reserves position is closely monitored and reported to the cabinet.

Our discussions with senior management indicates that future financial landscape is expected to get challenging. Therefore, alternative savings plans, reprioritisation general fund reserves under various scenarios might be necessary for longer term financial sustainability. We are fully aware, this is a national issue in Local Government services, where demand outstrips the associated funding available and not specific to Rotherham Council.

The Council is fully aware and acknowledges, using general fund reserves to achieve a balanced financial outturn position is not financially sustainable in the longer term.

2024-25 budget and Medium-Term Financial Strategy (MTFS):

The Council has set a balanced budget of £326.1m for 2024-25 with a savings target brought forward of £2,694k . In addition, there is a further savings target of £359k for 2024-25 which was approved when setting 2023-24 budget. In total, £3,053k of savings are required (£2,694k + £359k) to deliver this balanced budget for 2024-25. The Council also had a £7.095m of historical savings re-profiled for delivery across 2023-24 and 2024-25. During 2023-24 £4.401m was planned for delivery with the remaining £2.694m planned for 2024-24. However, only £1.894m was delivered in 2023-24, leaving the remaining £2.507m to be carried forward into 2024-25 to be delivered with the savings of £2.694m already profiled for 2024-25

We will continue to monitor Council's financial performance and general fund reserves position, as part of our 2023-24 VFM work.

Key matters - continued

Our Responses

- 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 out in this Audit Plan has been agreed with the Strategic Director - Finance and Customer Services .
- To ensure close working environment with our local audited bodies and an efficient audit process, our preference as a firm is work on site with or to develop a hybrid approach of on-site and remote working. We ask for confirmation that this is acceptable to you, and that officers will make themselves available to the audit team, as required. This is also in compliance with our delivery commitments in our contract with PSAA.
- As in prior years we will continue to meet regularly with the Strategic Director - Finance and Customer Services and senior finance team as part of our commitment to keep you fully informed on the progress of the audit, along with quarterly meetings with the Chief Executive and Monitoring Officer.
- We will continue to meet informally with the Chair of the Audit Committee, to brief the Chair on the status and progress of the audit work to date.
- We will consider your arrangements for managing and reporting your financial resources as part of our audit in completing our Value for Money work. Our value for money work will also consider your arrangements relating to governance and improving economy, efficiency and effectiveness.
- We will continue to provide you and your Audit Committee with sector updates as relevant, providing our insight on issues from a range of sources and other sector commentators via our Committee updates.
- We hold annual financial reporting workshops for our audited bodies to access the latest technical guidance and interpretations, to discuss issues with our experts and to facilitate networking links with other audited bodies to support consistent and accurate financial reporting across the sector.
- With the ongoing financial pressures being faced by local authorities, in planning this audit we have considered the financial viability of the Council. We are satisfied that the going concern basis remains the correct basis behind the preparation of the accounts. We will keep this under review throughout the duration of our appointment as auditors of the Council.
- We will continue to meet with senior officers to discuss issues around the strategic direction of the Council , performance of your budget and the extensive capital programme which is linked to the Council Plan, partnership working and developments in South Yorkshire, related to Rotherham Council's services.
- We will follow up on the implementation of our previous recommendations raised (as applicable) in the prior periods including our value for money recommendations. We will give a view on progress against these recommendations in our Audit Findings (ISA 260) report and Auditor's Annual report, both targeted to be published by the end of the 2024 calendar year.

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

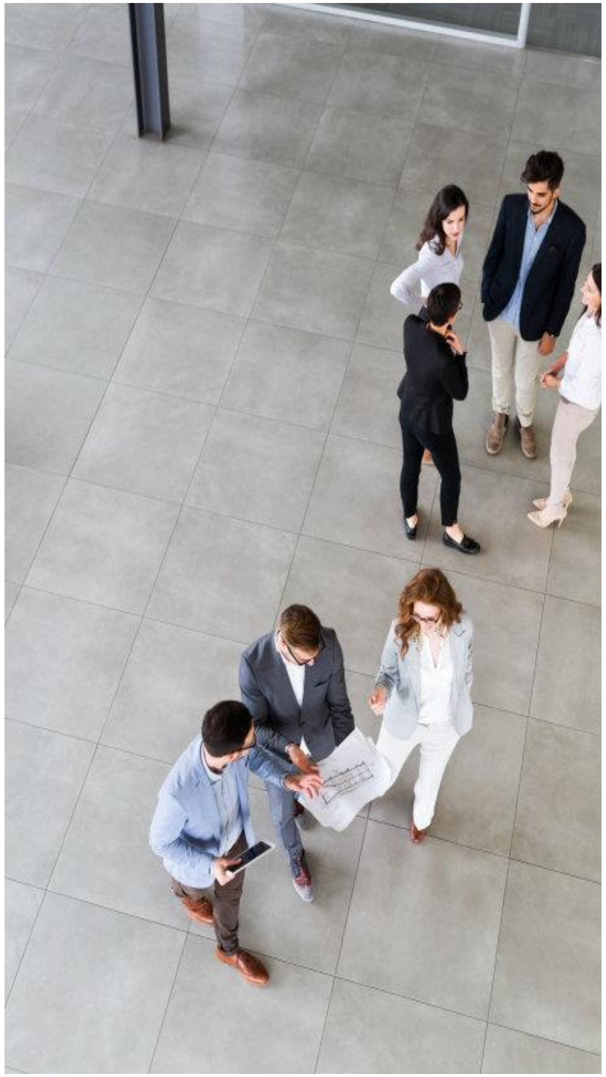
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. The NAO is in the process of updating the Code to make provision for the local authority accounts backstop legislation. Since the Council's accounts opinions and the value for money work is up to date, this is not expected to impact on the scope and timing of our 2023-24 audit work.

Our respective responsibilities are also set out in the 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 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 their responsibilities. It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its operations, and that public money is safeguarded and properly accounted for. Our audit approach is based on a thorough understanding of the Council's activities 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 £9,854k (PY £9,409k) for the Council, which equates to 1.5% (PY: 1.5%) of your prior year gross expenditure in net cost of services for the year 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 £492k (PY £470k) for the Council.

We will reassess our materiality calculation in early July when we formally start the post statement audit work of your 2023-24 draft accounts.

Value for Money arrangements

Our risk assessment regarding your arrangements to secure value for money to date has not identified any risks of significant weakness at planning stage. We will continue to update our risk assessment until we issue our Auditor's Annual Report.

As reported in our recent 2022-23 AAR in March 2024, we lowered the significant weakness and the associated key recommendation we reported in 2020-21 and 2021-22 around implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham (July 2021 CQC/Ofsted report) to an improvement recommendation. This is due to sufficient actions and associated improvements made by the Council since July 2021. These improvements were also supported by CQC/Ofsted inspections as reported in our 2022-23 AAR.

We will continue to update our risk assessment until we issue our 2023-24 AAR.

Audit logistics

Our planning work commenced in March 2024 and continued into April. Our final accounts work will begin in July 2024 and continue into the autumn. Our key deliverables are this Audit Plan, our Audit Findings (ISA260) Report and our Auditor's Annual Report on the Council's VFM arrangements.

Our proposed fee for the audit will be £399,424 (PY: £186,688) for the Council, subject to the Council delivering a good set of financial statements and working papers and no significant new financial reporting matters arising that require additional time and/or specialist input. Further details on fees are shown at pages 20 and 21.

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 and rebuttal	Key aspects of our proposed response to the risk
Risk of fraud in revenue recognition(ISA 240) and expenditure (Practice Note 10) – this risk is 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 sufficiently 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 - continued

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.	We will: • make inquiries of finance staff regarding their knowledge of potential instances of management override of controls • evaluate the design effectiveness of management controls over journals. This will include the controls management has in place to review journal postings • analyse the journals listing and determine the criteria for selecting high risk unusual journals and those falling into certain criteria determined by the audit team. This will include criteria relating to journals which have not been authorised • perform a risk-based interrogation of the financial ledger to identify any unusual and potentially fraudulent transactions for testing • test a sample of journals identified through the application of our risk-based approach 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 • examine journals and manual entries made around the time of the preparation of the draft financial statements for appropriateness and corroboration • understand the ledger integration with relevant sources and sub-systems to identify how management may be able to intervene in the journals posting process and post fraudulent entries.

Management should expect engagement teams to challenge areas that are complex, significant or highly judgmental. This may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies, with reference 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 - continued

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 in line with the Code requirements. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (some £1.05bn for land & buildings and council dwellings) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value of land and buildings is not materially different from the current value or the fair value at the balance sheet date, where a rolling programme is used. We therefore identified the closing valuation of land and buildings including council dwellings, as a significant risk, which was one of the most significant assessed risks of material misstatement.	The Council holds both specialised and non-specialised buildings within its portfolio. The specialised assets comprise schools, a football stadium and leisure centres among others. The valuation approach is depreciated replacement cost (DRC) with the key valuation assumptions being the rebuild cost, building size and adjustments for obsolescence (buildings age, condition & functionality). The council also holds non-specialised assets such as car parks and offices. Council dwellings are also considered non-specialised. We will: • evaluate the design effectiveness of management controls around processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work including the valuation of the football stadium • 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, on a sample basis, 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 their carrying values are not materially different to current value at year end • consider, where the valuation date is not 31 March 2024 (as relevant) for assets valued in year, the arrangements management has used to ensure the valuation remains materially appropriate at 31 March 2024 • agree, on a sample basis, the internal floor areas (GIAs) to records held by the estates management function • for non-specialised properties valued on the existing use value (EUV) basis, obtain market comparables to assess the appropriateness of market rents and yields selected by management's expert and used in the valuation calculations.

Significant risks identified - continued

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of the pension fund net balance	The Council's pension fund net balance, as reflected in its balance sheet, represents a significant estimate in the financial statements. The pension fund net balance is considered a significant estimate due to the size of the numbers involved (£109m asset at 31 March 2023 after applying IFRIC14 accounting principles) and the sensitivity of the estimate to changes in key assumptions We therefore identified the valuation of the Council's pension fund net balance as a significant risk of material misstatement. South Yorkshire Pension Fund reported a surplus position as at 31 March 2023, which resulted in a net pension asset of £109m for the first time as reported in the Council's 2022-23 accounts. A key aspect of our work planned for 2023-24 will be to consider whether this position remains supported by fund-level assumptions and market-based factors.	We will: • update our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net balance is not materially misstated • evaluate the instructions issued by management to their management expert (Hymans Robertson) for this estimate and the scope of the actuary's work • assess the competence, capabilities and objectivity of the actuary (Hymans Robertson) who carried out the Authority's pension fund valuation • assess the accuracy and completeness of the information provided by the Authority to the actuary to estimate the net pension balance • test the consistency of the pension fund figures and disclosures in the draft 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 • evaluate the continued appropriateness (as applicable) of recognising a pension asset position against the Code and IFRIC 14 criteria • assess the calculation performed to identify the IFRIC 14 net pension asset ceiling and where appropriate, challenge management on the validity and appropriateness of the assumptions used in the calculation • review the accounting for any unfunded liability element of LGPS including where this has been offset against the net funded LGPS balance.

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 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 financial statements, consider and decide upon any objections received in relation to the 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. 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.

Description	Planned audit procedures
Determination We have determined financial statement materiality based on a proportion of the gross expenditure of the Council for the previous financial year. Materiality at the planning stage of our audit is £9,854k (PY £9,409k) for the for the Council, which equates to 1.5% (PY:1.5%) of your gross expenditure in net cost of services for the prior period.	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.
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 £18k (PY £15k).
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 reassess our materiality calculation in early July when we formally start the post statement audit work of your 2023-24 draft accounts.
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.	We report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. 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 Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £492k (PY £470k) for the 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 (continued)

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.

	Council (single-entity) (£)	Qualitative factors considered
Materiality for the financial statements	£9,854,130	This equates to 1.5% of the Council's Gross Expenditure on Cost of Services for 2022-23.
Performance materiality	£6,897,891	This has been set at 70% of headline materiality, which is in line with the prior year. This reflects the fact that the Council has a stable financial reporting team with a track record of preparing good quality financial statements, supporting working papers and engaging well throughout the audit process.
Trivial matters	£492,700	This equates to 5% of headline materiality and represents our threshold for reporting corrected and uncorrected misstatements to the Audit Committee.
Materiality for specific transactions, balances or disclosures - senior officer remuneration.	£18,000	The senior officer remuneration disclosures in the financial statements have been identified as an area requiring a specific materiality due to their sensitive nature.

6. 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 value	Planned level IT audit assessment
E5 Financials	Core Financial Reporting	Around £1 billion (estimated 2023-24)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Revenue, Expenditure Procurement)
Northgate (Revenues & Benefits system)	Council Tax, Business Rates, Benefits	£250m (estimated 2023-24)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Interface to E5 financial system)
ITrent (Payroll System)	Payroll	Around £240m (estimated 2023-24)	• Detailed ITGC assessment (design and implementation) • Application controls assessment (Interface to E5 financial system)
NEC Housing (Housing Rents System)	Housing Revenue Account	Around £85m (estimated 2023-24)	Detailed ITGC assessment (design and implementation) Application controls assessment (Interface to E5 financial system)

7. Value for Money arrangements

Approach to Value for Money work for the period ended 31 March 2024

The National Audit Office 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:

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.

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.

8. Risks of significant VFM weaknesses

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

Potential types of recommendations

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

Statutory recommendation

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

Key recommendation

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

Improvement recommendation

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

Risks of significant VFM weaknesses – continued

The Audit Code sets out that the auditor's work is likely to fall into three broad areas:

- planning;
- additional risk-based procedures and evaluation; and
- reporting.

G	No significant weaknesses in arrangements identified or improvement recommendation made.
A	No significant weaknesses in arrangements identified, but improvement recommendations made.
R	Significant weaknesses in arrangements identified and key recommendations made.

We have undertaken initial planning work to inform this Audit Plan and the outcome is summarised in the table below. A key part of informing our 2023-24 VFM work is the consideration of prior year known areas of risk and recommendations raised. We set out our reported assessment below:

Criteria	2022-23 Auditor judgement on arrangements		Additional risk-based procedures planned
Financial sustainability	Amber	No significant weaknesses in arrangements identified, but two improvement recommendations were made.	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.
Governance	Green	No significant weaknesses in arrangements identified and no improvement recommendations were made.	We will ensure that our work assesses the current arrangements in place.
Improving economy, efficiency and effectiveness	Amber	No significant weaknesses in arrangements identified, but three improvement recommendations were made, including the following. As reported in our recent 2022-23 AAR in March 2024, we lowered the significant weakness and the associated key recommendation we reported in 2020-21 and 2021-22 around implementing Special Educational Needs and Disabilities (SEND) reforms in Rotherham (July 2021 CQC/Ofsted report) to an improvement recommendation. This is due to sufficient actions and associated improvements made by the Council since July 2021. These improvements were also supported by CQC/Ofsted inspections as reported in our 2022-23 AAR.	We will follow up progress against the improvement recommendations made and ensure that our work assesses the current arrangements in place.

Identification of significant weaknesses in the Council's 2023-24 arrangements:

At this stage, we have not identified any risks of significant weaknesses from our initial planning work. We will undertake more detailed planning work and continue our review of your arrangements until we sign the opinion on your financial statements before we issue our Auditor's Annual Report. Any further risks identified will be reported to Those Charged with Governance at the Audit Committee promptly.

9. Audit logistics and team

Michael Green, Key Audit Partner and Engagement Lead

Michael provides oversight of the delivery of the audit including regular engagement the Corporate Governance Audit Committee and senior management.

Thilina De Zoysa, Engagement Senior Manager

Thilina plans and manages the delivery of the audit including regular contact with senior management. The key point of contact for the Council's finance team.

Joseph Lewis, Audit Supervisor

Joseph is the key audit contact responsible for the day-to-day management and delivery of the audit work.

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, 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 cleansed, are made 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 the agreed period of the audit fieldwork
- respond promptly and adequately to audit queries.

10. Audit fees and updated Auditing Standards

Audit fees are set by PSAA as part of their national procurement exercise. In 2017, PSAA awarded a contract of audit for Rotherham Metropolitan Borough Council to begin with effect from 2018-19. This contract was re-tendered in 2023 and Grant Thornton has been re-appointed as your auditors. The scale fee set out in the PSAA contract for the 2023-24 audit is £383,874

This contract sets out four contractual stage payments for this fee, with payment based on delivery of specified audit milestones:

- Production of the final auditor's annual report for the previous Audit Year
- Production of the draft audit planning report to Audited Body
- 50% of planned hours of an audit have been completed
- 75% of planned hours of an audit have been completed.

- Any variation to the scale fee will be determined by PSAA in accordance with their procedures as set out here https://www.psaa.co.uk/appointing-auditors-and-fees/fee-variations-overview/.

- Further information on scale fees are set here by PSAA : https://www.psaa.co.uk/appointing-auditors-and-fees/auditor-appointments-and-scale-fees-2023-24-2027-28/

Assumptions

In setting these 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
- maintain adequate business processes and IT controls, supported by an appropriate IT infrastructure and control environment.

Updated Auditing Standards

The FRC has issued updated Auditing Standards in respect of Quality Management (ISQM 1 and ISQM 2). It has also issued an updated Standard on quality management for an audit of financial statements [ISA (UK) 220)]. We confirm we will comply with these standards.

Audit fees

	Proposed fee 2023-24
Rotherham Metropolitan Borough Council Scale Fee (per PSAA contract)	£383,874
Additional fee relating to the use of an auditor's expert for the valuation of property not included within the PSAA scale fee.	£3,000
Increased audit requirements of ISA 315 Revised – "Identifying and assessing the Risks of Material Misstatement" – (new controls requirement not included in the PSAA tender submission)	£12,550
Total audit fees (excluding VAT)	**£399,424**

Previous year

In 2022-23 the scale fee set by PSAA was £124,688, in line with previous PSAA contract that ended in 2022-23.

The fee variation in 2022-23 was £64,000 and the fee we reported in our final 2022-23 Audit Finding Report was £188,688 (£124,688 + £64,000). However , PSAA approved fee for 2022-23 was £186,688, which was £2,000 less than what was reported in our final 2022-23 Audit Finding Report.

As a result , our final audit fees for the Council in 2022-23 was £186,688.

Relevant professional standards

In preparing our fees, 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.

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 a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and public sector financial reporting.

Our proposed work and fee is per the PSAA scale fee. Should additional work be identified as necessary in addition to the ISA 315 work identified above, additional fees levied for work that we will be required to undertaken to obtain appropriate assurances. Should the need to levy such additional fees arise, these will be discussed with the Chief Financial Officer and Assistant Director of Finance and Technology on a timely basis.

11. IFRS 16 ‘Leases’ and related disclosures

IFRS 16 will need to be implemented by local authorities from 1 April 2024. This Standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and replaces IAS17. The objective is to ensure that lessees and lessors provide relevant information in a manner that faithfully represents those transactions. This information gives a basis for users of financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity. As this is a shadow year for the implementation of IFRS 16, we will need to consider the work being undertaken by the Council to ensure a smooth adoption of the new standard.

Introduction

IFRS 16 updates the definition of a lease to:

> “a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.” In the public sector the definition of a lease is expanded to include arrangements with nil consideration.

IFRS 16 requires all leases to be accounted for 'on balance sheet‘ by the lessee (subject to the exemptions below), a major departure from the requirements of IAS 17 in respect of operating leases.

IFRS 16 requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. There is a single accounting model for all leases (similar to that of finance leases under IAS 17), with the following exceptions:

- leases of low value assets
- short-term leases (less than 12 months).

Lessor accounting is substantially unchanged leading to asymmetry of approach for some leases (operating) although if an audited body is the intermediary and subletting there is a change in that the judgement between operating and finance lease is made with reference to the right of use asset rather than the underlying asset.

Council’s systems and processes

We believe that most local authorities will need to reflect the effect of IFRS 16 changes in the following areas:

- accounting policies and disclosures
- application of judgment and estimation
- related internal controls that will require updating, if not overhauling, to reflect changes in accounting policies and processes
- systems to capture the process and maintain new lease data and for ongoing maintenance

Planning enquiries

As part of our planning risk assessment procedures we have discussed implementation of the standard with the Head of Accountancy and we understand that the Council will be adopting the standard from 1 April 2024 in line with many local authorities. Per our discussions, the Council is underway with preparing the necessary impact statement highlighting the expected impact to readers.

Further information

Further details on the requirements of IFRS16 can be found in the HM Treasury Financial Reporting Manual. Please refer to the following link:

IFRS 16 Application Guidance December 2020 (publishing.service.gov.uk)

12. Independence and non-audit services

Auditor independence

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

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

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

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services 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. The audit related work reported here is also no longer completed by the audit team set out at pages 2 and 19 but by our separate grants audit team.

Service	Fees £	Threats	Safeguards
Audit related:			
Certification of Housing Benefit *[See note below]*	35,640*	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 £35,640 in comparison to the total fee for the audit of £399,424 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:** This fee is based on where we reperform a sample of the initial case testing undertaken by the Council which was the case in previous years.*

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.

13. 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	•	•

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.

Communication of audit matters with those charged with governance (continued)

Our communication plan	Audit Plan	Audit Findings
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		•

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.

14. Escalation policy

The Department for Levelling Up, Housing and Communities is proposing to introduce an audit backstop date on a rolling basis to encourage timelier completion of local government audits in the future. For the 2023-24 accounts cycle, we understand the proposed deadline for the audit opinion is 30 April 2025 for a 31 May 2025 back stop. Rotherham Metropolitan Borough Council has continued to perform well in recent years in achieving timely production of its financial statements and sign-off of its audit opinion, however, we have included the below for your information and to indicate the wider context within the local audit sector.

It remains the Authority's responsibility to produce true and fair accounts in accordance with the CIPFA Code by the 31 May 2024 and respond to audit information requests and queries in a timely manner, **which very much represents business as usual at Rotherham Metropolitan Borough Council based on our observations from previous audits.**

To help ensure that accounts audits can be completed on time in the future, we have introduced an escalation policy. This policy outlines the steps we will take to address any delays in draft accounts or responding to queries and information requests. If there are any delays, the following steps are set out below:

Step 1 - Initial Communication with Finance Director (within one working day of statutory deadline for draft accounts or agreed deadline for working papers)

We will have a conversation with the Finance Director to identify reasons for the delay and review the Authority's plans to address it. We will set clear expectations for improvement.

Step 2 - Further Reminder (within two weeks of deadline)

If the initial conversation does not lead to improvement, we will send a reminder explaining outstanding queries and information requests, the deadline for responding, and the consequences of not responding by the deadline.

Step 3 - Escalation to Chief Executive (within one month of deadline)

If the delay persists, we will escalate the issue to the Chief Executive, including a detailed summary of the situation, steps taken to address the delay, and agreed deadline for responding..

Step 4 - Escalation to the Audit Committee (at next available Audit Committee meeting or in writing to Audit Committee Chair within 6 weeks of deadline)

If senior management is unable to resolve the delay, we will escalate the issue to the Audit Committee, including a detailed summary of the situation, steps taken to address the delay, and recommendations for next steps.

Step 5 – Consider use of wider powers (within two months of deadline)

If the delay persists despite all efforts, we will consider using wider powers, e.g. issuing a statutory recommendation. This decision will be made only after all other options have been exhausted. We will consult with an internal risk panel to ensure appropriateness.

By following these steps, we aim to ensure that delays in responding to queries and information requests are addressed in a timely and effective manner, and that we are able to provide timely assurance to key stakeholders including the public on the Authority's financial statements.

15. Addressing the local audit backlog – consultation

Consultation

The Department for Levelling Up, Housing and Communities (DLUHC), working with the FRC, as incoming shadow system leader, and other system partners, has put forward proposals to address the delay in local audit. The proposals consist of three phases:
Phase 1: Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024. Please note there could be a further delay to this 30 September 2024 reset, due to the General Elections announcement on 4 July 2024 and potential lack of time to pass the required legislation through, before the summer recess of the Parliament.

Phase 2: Recovery from Phase 1 in a way that does not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.

Phase 3: Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.
The consultation ran until 7 March 2024. Full details of the consultation can be seen on the following pages:

- FRC landing page - Consultations on measures to address local audit delays (frc.org.uk)
- DLUHC landing page - Addressing the local audit backlog in England: Consultation - GOV.UK (www.gov.uk)
- NAO landing page - Code of Audit Practice Consultation - National Audit Office (NAO)

Our response to the consultation

Grant Thornton responded to the consultation on 5 March 2024. In summary, we recognise the need for change, and support the proposals for the introduction of a backstop date of 30 September 2024. The proposals are necessarily complex and involved. We believe that all stakeholders would benefit from guidance from system leaders in respect of:

- the appropriate form of reporting for a backstopped opinion
- the level of audit work required to support a disclaimer of opinion
- how to rebuild assurance in terms of opening balances when previous years have been disclaimed.

We believe that both auditor and local authority efforts will be best served by focusing on rebuilding assurance from 2023/24 onwards. This means looking forwards as far as possible, and not spending 2023/24 undertaking audit work which was not carried out in previous years. We look for guidance from systems leaders to this effect.

Preparing for the backstop

For any outstanding years up to 2022/23, local authorities should:

- Prepare, adopt and publish financial statements in line with Code and Statutory requirements (Accounts and Audit Regs 2015 – 'true and fair')
- Support statements with a proper set of working papers and audit trail
- Work with the auditor to support the completion of outstanding audit work (where possible) and for the completion of Value for Money Work.

For 2023/24, local authorities should:

- Agree a timetable and working paper requirements with the auditor
- Put project planning and key milestones in place
- Consider the implications of CIPFA consultation (property valuation and pensions)
- Ensure the Audit Committee is properly briefed and prepared

As your auditor we will:

- Keep you updated on all national developments
- Set out clear expectations of the information we will require to conclude our work
- Agree a plan for the delivery of our work programme with a commitment to key milestones

Next steps

We await the government's response to the consultation. We will discuss next steps including any implications for your audit once we have further information. Following the announcement of the General Election for July 2024 we expect there will be a delay in further announcements or guidance.