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Report to those charged with governance (ISA 260) 2010/11

Rotherham Metropolitan Borough Council

15 September 2011

Contents

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	Page
Report sections	
■ Introduction	2
■ Headlines	3
■ Financial statements	6
■ VFM conclusion	14
Appendices	
1. Follow-up of prior year recommendations	16
2. Declaration of independence and objectivity	17

This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gov.uk.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Steve Clark, the appointed engagement lead to the Authority, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, Westward House, Lime Kiln Close, Stoke Gifford, Bristol, BS34 8SR or by email to complaints@audit-commission.gov.uk. Their telephone number is 0844 798 3131, textphone (minicom) 020 7630 0421.

Section one

Introduction

This report summarises:

- **the key issues identified during our audit of Rotherham Metropolitan Borough Council’s (‘the Authority‘s) financial statements for the year ended 31 March 2011; and**
- **our assessment of the Authority’s arrangements to secure value for money (VFM) in its use of resources.**

We do not repeat matters we have previously communicated to you. In particular, we draw your attention to our *Interim Audit Report 2010/11*, presented to you in July, which summarised our planning and interim audit work.

Financial statements

Our audit of the financial statements can be split into four phases:

Planning → Control Evaluation → Substantive Procedures → Completion

We previously reported on our work on the first two stages in our *Interim Audit Report 2010/11* issued in July.

This report focuses on the final two stages: substantive procedures and completion.

Our final accounts visit on site took place between August and September. During this period, we carried out the following work:

Substantive Procedures

- Planning and performing substantive audit procedures.
- Concluding on critical accounting matters.
- Identifying audit adjustments.
- Reviewing the Annual Governance Statement.

We are now in the final phase of the audit. Some aspects are also discharged through this report:

Completion

- Declaring our independence and objectivity.
- Obtaining management representations.
- Reporting matters of governance interest.
- Forming our audit opinion.

VFM conclusion

We have also now completed our work in respect of the 2010/11 VFM conclusion. This included:

- work to address the specific risk areas identified; and
- Consideration of our work on Financial Resilience and arrangements for securing Value for Money.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out the key findings from our audit work in relation to the 2010/11 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

Headlines

This table summarises the headline messages. The remainder of this report provides further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion by 30 September 2011. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified no significant audit adjustments however there is one minor adjustment relating to the disclosure of HRA rent arrears which has been corrected by the Authority in the Audited Statement of Accounts. We have identified no control weaknesses in addition to those that we reported from our interim communication in July 2011.
Critical accounting matters	We have worked with officers throughout the year to discuss specific risk areas, which the Authority have appropriately addressed. These specific risks included: ▪ ***IFRS Restatement*** – The Authority have produced a Statement of Accounts that comply with IFRS and the Local Government Code. Given the shear size of the challenge faced in converting the Statement of Accounts to IFRS, Officers have done an excellent job. There were a few immaterial variances that we identified during our testing that have been fully addressed by Officers and which demonstrate the proactive approach that the Authority took to the conversion process. As a result of early liaison with officers throughout the year we were able to agree with the processes and critical judgements made by officers in their conversion to IFRS prior to our final audit visit taking place. ▪ ***Reintegration of 2010 Rotherham Ltd*** – The decision to reintegrate the ALMO which was made on the 23 February has resulted in an additional £9.2m of liabilities being recognised in the Authority accounts. This included: ▪ Net Trading Liability [£3.2m] – As at 31 March 2011 the ALMO had net trading liability of £3.2m which the Authority have committed to funding through the decision to reintegrate. ▪ Pension Liability [£5.4m] – The Authority have included the ALMO pension liability with its own for the current financial year. This is due to the ALMO staff being TUPE back to the Authority on reintegration. The liability will be incorporated into the Authority's and settled in future years through the ongoing employer pension contributions determined triennially by SYPA. ▪ Pension Strain Costs [£0.6m] – This is the additional costs required to be made to the Pension Authority due to restructuring within the ALMO. These figures are included within the Authority creditor balance with the valuation provided by SYPA. As these liabilities were already included within the Group accounts the overall financial exposure of the Authority has not increased. The effect has simply been that these liabilities are now included on the Authority's single entity balance sheet as a result of the decision to reintegrate the ALMO function.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

Critical accounting matters (continued)	▪ ***Pension Liability*** – There has been a £73.2m reduction in the pension liability during the year which is detailed on page 9 of the report. This is substantially represented by the change in indexation assumption from RPI to CPI [£53m] and actuarial gains on the pension assets [£34.1m]. The treatment of the pension liability is in line with the Code and relevant LAAP bulletins.
Accounts production and audit process	Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. Given the challenges faced by the Authority with regards to having to convert their financial statements to IFRS and the restructure within the finance team which has been ongoing throughout the final audit visit, the Officers commitment and dedication is commended. As a result of the restructure mentioned, Officers should begin to plan as early as possible for the 2011/12 close down process given the potential staff changes within the wider finance team. The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.
Completion	At the date of this report our audit of the financial statements is substantially complete. Before we can issue our opinion we require a signed management representation letter. This year we are asking for an additional, specific representation in relation to the calculation of the Authorities Equal Pay provision. The Equal Pay provision is an amount of money set-aside by the Authority to settle claims made against it in relation to the Equal Pay Act. The amount of the provision has decreased in year however is subject to a significant amount of estimation and judgement. This is because the Authority must estimate the number and value of claimants who have been disadvantaged in relation to protected pay agreements. Due to the significance of the value and the amount of judgement required in setting this provision we are seeking the specific assurance of management that this value is materially correct. Officers believe that, given the available information at the time of signing the Statement of Account, this is the case. We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Headlines (continued)

This table summarises the headline messages. The remainder of this report provides further details on each area.

VFM conclusion	We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have assessed the Authority against the two criteria identified by the Audit Commission: ■ Securing financial resilience; and ■ Securing economy, efficiency and effectiveness. To do this we have held meetings with Officers and reviewed a wide range of documentation and arrangements across the Authority in order to come to our conclusion. As part of this process we have considered a number of major strategic decisions / schemes that the Authority have faced and continue to face as part of our VFM work. As part of this work we have reviewed the reintegration of 2010 Rotherham Ltd, the move to increasing the number of shared services that the Authority are involved in and the latest position on the combined waste PFI project. These areas have provided some strong evidence of innovation, service review and cost benefit analysis to support our VFM opinion. Furthermore we have reviewed the Authority's response to the Ofsted notice initially issued in December 2009 and then updated in December 2010. Whilst the Children's and Young People's Service still faces challenges in driving improvements through and managing its budget pressures the Authority are acutely aware of this and continue to manage this closely. We have also considered the Visions of China project that has recently been announced. Whilst this does not have an impact in the current period of review for the VFM conclusion it is an area that will be prominent in future assessments therefore should be managed closely by the Authority.

Proposed opinion and audit differences

We have identified no issues in the course of the audit that are considered to be material.

Proposed audit opinion

We anticipate issuing an unqualified audit opinion by 30 September 2011.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

We did not identify any material misstatements. We identified a number of presentational issues that have been adjusted by management, however they have no impact upon the general fund.

The table left highlights key figures from the Statement of Account and shows that post audit there has been no change in values.

Movements on the General Fund 2010/11

£m	Pre-audit	Post-audit
Surplus or (deficit) on the provision of services	(587)	(587)
Adjustments between accounting basis & funding basis under regulations	(2,507)	(2,507)
Transfers to/ from earmarked reserves	5,446	5,446
Increase/decrease in General Fund	**2,352**	**2,352**

Balance Sheet as at 31 March 2011

£m	Pre-audit	Post-audit
Property, plant and equipment	1,173,899	1,173,899
Other long term assets	49,358	49,358
Current assets	61,675	61,675
Current liabilities	(131,519)	(131,519)
Long term liabilities	(803,738)	(803,738)
Net worth	**349,675**	**349,675**
General Fund	(11,230)	(11,230)
Other reserves	(338,445)	(338,445)
Total reserves	**(349,675)**	**(349,675)**

Proposed opinion and audit differences (continued)

During the course of the audit we have identified no audit adjustments that impact upon the General Fund or HRA.

We did identify a small number of presentation changes that were required which have been agreed by officers.

The wording of your Annual Governance Statement accords with our understanding.

Of the other audit adjustments we have identified, the most significant in monetary value are as follows:

- Note 10 Rent Arrears – The 2010/11 rent arrears were shown net of prepaid rents which is inconsistent with the prior year. This has been adjusted in the audited Statement of Account. The total presentational adjustment is £387k.

It is our understanding that these will be adjusted in the final version of the financial statements.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Authority Accounting the United Kingdom 2010 ('the Code')*. We understand that the Authority will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- It complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE in June 2007; and
- It is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Critical accounting matters

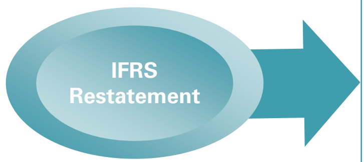
We have worked with officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.

In our *Financial Statements Audit Plan 2010/11*, presented to you in December**,** we identified the key risks affecting the Authority's 2010/11 financial statements.

In our *Interim Audit Report 2010/11* we commented on the Authority's progress in addressing these key risks. We highlighted the progress that had been made in responding to these risks.

We have now completed our testing of these areas and set out our final evaluation following our substantive work.

The table below sets out our detailed findings for each risk.

Key audit risk	Issue	Findings
	The Statement of Account 2010/11 is the first year of accounting under International Financial Reporting Standards [IFRS]. This has required significant planning, resource allocation and judgement to ensure that the Authority are fully compliant.	We have maintained regular dialogue with Officers throughout the year to ensure that they have taken a reasonable and consistent approach to the IFRS restatement process. Officers at the Authority took an early proactive approach to this conversion process, as previously reported, and this has clearly paid dividends. Officers sought early guidance from KPMG on their proposed adjustments as a result of IFRS which meant that there has been early dialogue and agreement on many issues prior to the final audit visit starting. Our review of the IFRS restated Statement of Accounts has highlighted that there have been no material errors which is commendable given the scale of the conversion process and only a small number of minor adjustments were required. There has been a number of critical judgements adopted by officers in deriving the restatements however we have reviewed and agreed these as being appropriate and in line with the relevant accounting standards and guidance issued. The finance function have operated effectively in ensuring that they met the reporting timeframes and produced good quality working papers and financial adjustments throughout the whole process.

Critical accounting matters (continued)

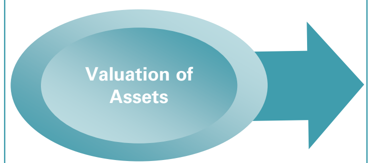
The decision to reintegrate the ALMO has resulted in an additional £9.2m of liability being recognised in the single entity Authority accounts.

These liabilities were already included within the Group accounts therefore overall the Authority's financial exposure has not increased.

Key audit risk	Issue	Findings
	On the 23 February 2011, Cabinet approved reintegration of the housing management function which would make 2010 Rotherham Ltd dormant. The transfer will commence when the current management agreement ceases in June 2011, however this has an impact upon the Authority balance sheet for 2010/11. This arises as the Authority have effectively committed to take on the ALMO assets and liabilities prior to year end.	Prior to the production of the statement of accounts we held a range of meetings to confirm the liabilities that the Authority should recognise in the current financial period as a result of the reintegration of the ALMO. Again this demonstrates the proactive approach adopted by the Authority. We can confirm that all the relevant liabilities have been appropriately recognised as follows: ▪ Net Trading Liabilities [£3.2m] – As at 31 March 2011 the ALMO had net trading liability of £3.2m which the Authority have committed to funding through the decision to reintegrate. This has been recognised as a short term creditor in the Statement of Account. ▪ IAS19 Pension Liability [£5.43m] – The Authority have included the ALMO pension liability with its own for the current financial year. This is due to the ALMO staff being TUPE back to the Authority on reintegration. The liability will be incorporated into the Authority's and settled in future years through the ongoing employer pension contributions determined triennially by SYPA. ▪ Pension Strain Costs [£0.6m] – This is the additional costs required to be made to the pension authority due to restructuring within the ALMO. These figures are included within the Authority creditor balance with the valuation provided by SYPA. We have identified no further entries that should be included within the single entity financial statements.

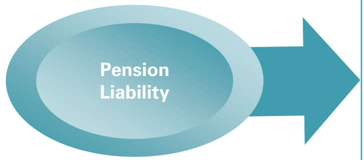
Critical accounting matters (continued)

We have reviewed the Authority's approach to asset revaluations and identified one performance improvement recommendation as outlined in Appendix 1.

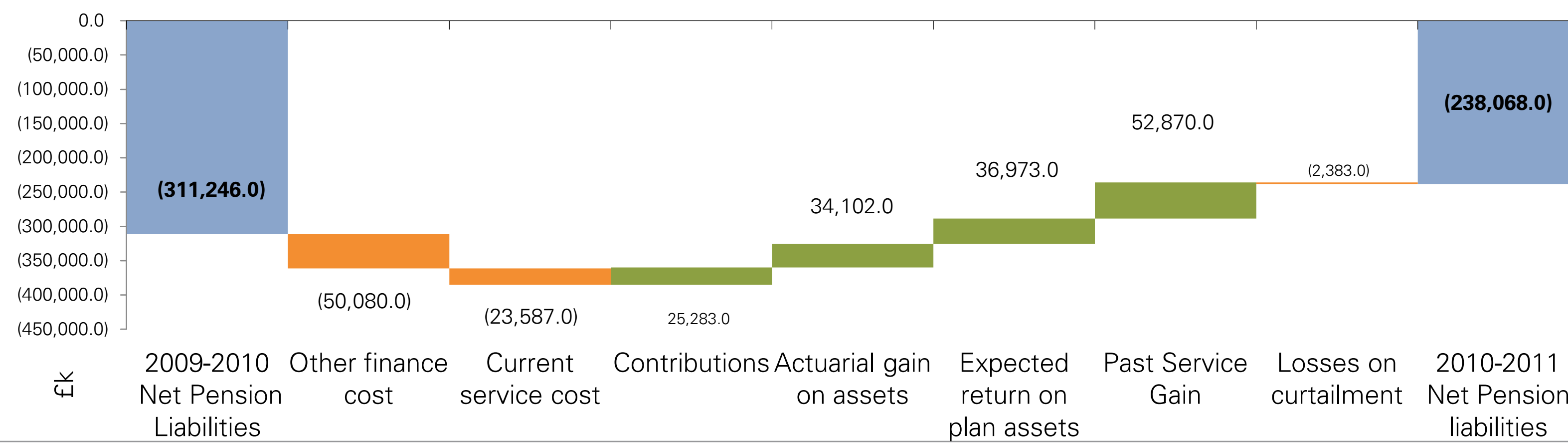
Key audit risk	Issue	Findings
	The Authority have made a number of material impairments over the past two accounting periods as a result of economic conditions. In 2009/10, we also reported the need to undertake a detailed impairment review of the leisure PFI. As a result, we will focus additional effort upon this area of the financial statements.	We have reviewed the Authority's approach to asset revaluations and can conclude that the process of impairment review and revaluations in year has been effective. All the schemes subject to revaluation in year have been appropriately considered by the Valuer. In 2009/10 we included a recommendation in relation to potential indicators of impairment in relation to the Leisure PFI. We have considered the impairment review of the leisure PFI and confirm that a downward revaluation of £4.03m has been reflected in the 2010/11 financial statements.

Critical accounting matters (continued)

There has been a substantial decrease in the Authority’s pension liability during the year.

Key audit risk	Issue	Findings
	The local government pension schemes have under gone a triennial valuation which impacts the Council through an increased pension liability. In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Price Index (CPI) rather than, as previously, the Retail Price Index (RPI). These changes will have a substantial impact upon the Authority's financial statements.	The Authority pension liability has decreased in year by £73.2m which is illustrated in the graph below. The key movements in year relate to: ▪ Past Service Gain [£53.0m] – This relates to the change in indexation assumption from RPI to CPI. This has been accounted for through the Comprehensive Income Statement in line with the Urgent Issues Task Force [UITF] abstract 48 and advice received through CIPFA. ▪ Actuarial Gain on Assets [£34.1m] – This is a judgemental gain which has been suggested by the scheme Actuary, Mercers, and arises due to more optimistic assumptions. We agree with the treatment adopted by Officers and the assumptions employed by the Actuary to the pension liability and have raised no concerns over this significant area.

Pension Bridge – Movement in the IAS 19 Pension Liability



Accounts production and audit process

We have noted an improvement in the quality of the accounts and the supporting working papers.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10* relating to the financial statements.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the qualitative aspects of the Authority's accounting practices and financial reporting. We also assessed the Authority's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Authority has ensured that it has maintained a consistent standard in its production of the Statement of Account to that which we observed in the prior year. This is in the context of the increased burden relating to IFRS and the additional accounting work involved within the process. We believe that the Authority have a challenge in the next 12 months to ensure that the financial services team have the appropriate training and understanding of the audit process given the transformation of the structure.
Completeness of draft accounts	In accordance with statutory requirements, the Authority published its unaudited Statement of Account by 30 June 2011. We received a complete set of draft accounts on 5th July 2011. The Authority have made a number of presentational changes as a result of our review however there have been no changes which we consider to be fundamental.
Quality of supporting working papers	Our *Accounts Audit Protocol*, which we issued in January 2011, set out our working paper requirements for the audit. The central finance team provided, or were able to provide on request, working papers which fully addressed our line of enquiry.
Response to audit queries	Officers provided timely responses to ad hoc requests and queries which we raised throughout the audit without exception.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements for the year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to Chief Accountant. We require a signed copy of your management representations before we issue our audit opinion.

We have requested representation over the following area of material judgement:

- Equal Pay Provision – The Authority recognise a provision which relates to future claims based upon a probability of receiving equal pay claims. This is subjective given uncertainty over the potential value and likelihood of receiving future claims.

Other matters

ISA 260 requires us to communicate 'audit matters of governance interest that arise from the audit of the financial statements' to you which includes:

- material weaknesses in internal control identified during the audit;
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. issues relating to fraud, compliance with laws and regulations, subsequent events etc.);
- other audit matters of governance interest.

There are no others matters which we wish to draw to your attention.

New VFM audit approach

Our VFM conclusion considers how the Authority secures financial resilience and challenges how it secures economy, efficiency and effectiveness.

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Overview of the new VFM audit approach

For 2010/11, auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Authority has proper arrangements in place for:

- securing financial resilience: looking at the Authority's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Authority is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Authority to mitigate these risks and plan our work accordingly.

Our VFM audit draws heavily on other audit work which is relevant to our VFM responsibilities and the results of last year's VFM audit.

The key elements of the VFM audit approach are summarised in the diagram below.

Conclusion

We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

VFM criterion	Met
Securing financial resilience	✓
Securing economy, efficiency and effectiveness	✓

The following pages include further details on the specific risk-based work.

New VFM audit approach (continued)

We have tailored our VFM work to the areas where there has been substantial change during the year.

There is some strong evidence to strategic vision to secure VFM and cost benefit analysis.

We have used our cumulative knowledge of the Authority from our previous VFM work and regular dialogue with Officers to ensure that our approach to VFM has been tailored and focussed towards specific risks that the Authority are facing.

During this process we have held a range of meetings with Senior Officers, prepared VFM profiles benchmarking performance with nearest neighbours, reviewed a range of Cabinet reports and reports commissioned on behalf of Cabinet, and reviewed the Authority plans for ensuring financial resilience.

The outcome of this work is summarised below:

Consideration of Other Independent Reviews

As part of our VFM approach we have reviewed the Authority's response to the Ofsted notice issued as part of the Children's and Young People's Service (CYPS) review in December 2009 and then updated in December 2010. Whilst the CYPS still faces challenges in driving improvements through and managing its budget pressures particularly in this area the Authority are acutely aware of this and continue to manage this closely.

There have been no additional other independent reviews undertaken by the Audit Commission or other review agencies in this period.

Specific risks

To support our VFM opinion we have considered a number of major strategic decisions / schemes that the Authority are currently managing. The areas considered include:

- *Reintegration of 2010 Rotherham Ltd* - We have reviewed the information that has been presented to Cabinet and the rationale behind the decision to reintegrate the ALMO. There is strong evidence of cost benefit analysis and investment appraisal as part of this decision making as well as consideration of the service provision. This enabled us to obtain strong evidence in relation to both financial resilience and securing value for money.
- *Shared Service Opportunity* – Whilst some cost savings have been achieved through greater shared service working in year the Authority continue to monitor this area seeking additional opportunities. This demonstrates the Authority's vision to work closely with their neighbours to improve service delivery and VFM. This has demonstrated that the Authority are looking to diversify income and are considering its relationships with stakeholders in order to continually drive VFM.

  This will be an area that we reconsider in future years as potential vehicles for delivering VFM.
- *Waste PFI* – We have reviewed the progress in year in relation to the planned Waste PFI Partnership with Doncaster and Barnsley Councils. The impact of cost savings attached to this project will be assessed in future periods however this is a strong example of shared working within the region.
- *Visions of China* - We have also considered the Visions of China project that has recently been announced. We have had initial dialogue with officers regarding this project and have reviewed the Cabinet minutes on this topic. Whilst this does not have any impact in the current period of review for the VFM conclusion it is an area that will be prominent in future assessments therefore should be managed closely by the Authority.

Appendix 1: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our *ISA 260 Report 2009/10*.

The progress against control issues identified from 2009/10 audit were reported in our 2010/11 interim report presented in July 2011.

This appendix summarises the progress made to implement the recommendations identified in our *ISA 260 Report 2009/10* and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding (re-iterated below)	Nil

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at August 2011
1	● (two)	**Leisure PFI Valuation** The Authority brought the Leisure PFI on balance sheet at the valuation given at inception. It is necessary to conduct frequent valuations to identify any potential impairments arising in relation to assets. During the year the Authority had conducted a desktop valuation to confirm the values in the original PFI model. The desktop review highlighted a potential impairment of £3.987 million however the Authority did not adjust the carrying value of the PFI to reflect this in the accounts.	We suggest that the Authority carries out a full valuation exercise on the Leisure PFI assets to validate the fair carrying value in the 2010/11 accounts. **Jon Baggaley / Andy Sidney** **31 March 2011**	A full valuation of the Leisure PFI was undertaken during 2010/11. This provided a downward revaluation of £4.03m which has been reflected in the Statement of Account 2010/11.

Appendix 2: Declaration of independence and objectivity

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both the Commission and the Authority.

Requirements

Auditors appointed by the Audit Commission must comply with the *Code of Audit Practice* (the Code) which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Audit Commission's Standing guidance for local government auditors (Audit Commission Guidance) and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* (Ethical Standards).

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Audit Commission Guidance requires appointed auditors to follow the provisions of ISA (UK &I) 260 Communication of *Audit Matters with Those Charged with Governance*' that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.
- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Audit Partner and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 2: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the Ethics and Independence Manual ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual Ethics and Independence Confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements for the financial year ending 31 March 2011, we confirm that there were no relationships between KPMG LLP and the Rotherham Metropolitan Borough Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Audit Commission's requirements in relation to independence and objectivity.

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