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Annual Audit Letter 2010/11

Rotherham Metropolitan Borough Council

15 November 2011

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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 Stephen 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.

This report summarises the key findings from our 2010/11 audit of Rotherham Metropolitan Borough Council (the Authority).

Although this letter is addressed to the Members of the Authority, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Authority's 2010/11 financial statements and the 2010/11 VFM conclusion.

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| <p>VFM conclusion</p> | <p>We issued an unqualified value for money ('VFM') conclusion for 2010/11 on 30 September 2011.</p> <p>This means we are satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p> |
| <p>VFM risk areas</p> | <p>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.</p> <p>Furthermore, we reviewed the Authority's response to the Ofsted notice to improve initially issued in December 2009 and then updated in December 2010.</p> |
| <p>Audit opinion</p> | <p>We issued an unqualified opinion on your financial statements on 30 September 2011. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.</p> |
| <p>Financial statements audit</p> | <p>This year's financial statements were the first to be prepared under International Financial Reporting Standards (IFRS). Officers took an early proactive approach to this conversion process and this has clearly paid dividends. Officers sought early guidance from KPMG on their proposed adjustments, which meant that there has been early dialogue and agreement on many issues prior to the final audit visit starting.</p> <p>Like most local authorities, the Authority has prepared their financial statements, whilst under pressure from funding cuts introduced by the local government settlement announced in late 2010. A finance team re-structure was also taking place throughout the final audit visit.</p> <p>Given the above mentioned challenges, the fact that officers met the reporting timeframes, produced good quality working papers and dealt efficiently with audit queries, demonstrates the officers' commitment and dedication.</p> <p>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. Our audit identified one minor adjustment relating to the disclosure of HRA rent arrears which was corrected by the Authority in the Audited Statement of Accounts.</p> <p>We have identified no control weaknesses in addition to those that we reported from our interim communication in July 2011.</p> <p>The Authority has implemented all of the recommendations in our <i>ISA 260 Report 2009/10</i> relating to the financial statements.</p> |

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

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| Annual Governance Statement | We reviewed your <i>Annual Governance Statement</i> and concluded that it was consistent with our understanding. |
| Certificate | We issued our certificate on 30 September 2011. The certificate confirms that we have concluded the audit for the year ended 31 March 2011 in accordance with the requirements of the <i>Audit Commission Act 1998</i> and the Audit Commission's <i>Code of Audit Practice</i> . |
| Audit fee | Our fee for 2010/11 was £323,681 excluding VAT which is in line with the fee that we proposed at the start of the audit cycle. |

Appendix 1: Key issues and recommendations

This appendix summarises the high and medium priority recommendations that we identified during our 2010/11 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

| No. | Issue and recommendation | Management response/ responsible officer/ due date |
|--|--|---|
| Interim Recommendations – July 2011 | | |
| 1 | <p>IT Access Controls</p> <p><i>Description</i></p> <p>We have identified a number of instances where user access controls are not operating effectively and / or there are performance improvement points that the Authority should consider:</p> <p>Our findings can be summarised as:</p> <p>A. PSe New User - Access request forms were not available for six out of thirteen new accounts created on PSe within the financial year. This was due to the HR service centre staff setting up new users at the verbal request of their team leaders without the authorisation forms being completed.</p> <p>B. CedAr 'Ghost' Users - A review of CedAr active accounts found three which belonged to staff no longer employed by the Authority. An inspection of the access log showed that the accounts had been accessed since the date the users officially left. Whilst we have no evidence that these accounts have been inappropriately used, it does create a risk that these accounts can be misused.</p> | <p>The Management for each service will review the ongoing effectiveness of the IT access controls and where appropriate (and able to) will consider the actions that need to be taken</p> <p>Due Date</p> <p>September 2011</p> |

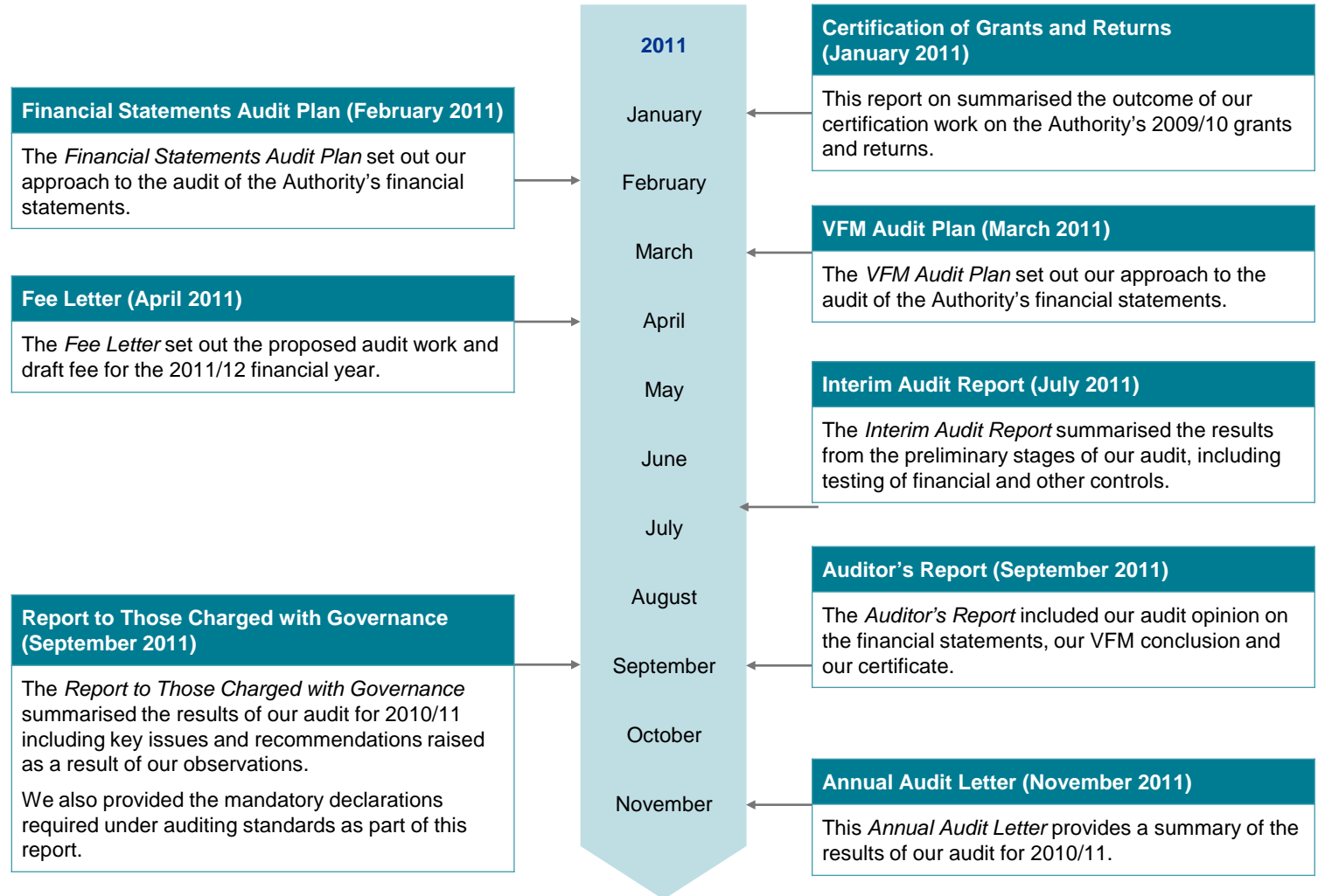
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| | <p>C. Radius 'Ghost' Users - A review of active users found eight active Radius user accounts which belonged to staff who had left the Council in the year. This observation indicates a weakness in the operation of the timely removal of leavers' accounts on the system. Whilst we identified no inappropriate activity, it is possible that individuals could gain access to the system after they have left. This creates a risk of fraud or errors relating to transaction processing and financial reporting.</p> <p>D. CedAr / Northgate / PSe Access Reviews – We identified that there is no evidence that review of user access rights have been carried out within CedAr and Northgate. Inappropriate access was identified in the CedAr system only.</p> <p>These observations present a risk over the integrity of system security which could lead to inappropriate access. The impact could be exposure to fraud or erroneous processing within the Authority's financial data. Whilst we have identified a number of instances where 'ghost' accounts have been accessed, this has been for the purpose of running tailored reporting attached to the account.</p> <p>The user access controls become even more pertinent given the current restructuring and cost saving program that the Authority is undergoing.</p> <p><i>Recommendation</i></p> <p>We recommend that the Authority review its approach to monitoring and controlling access to core financial systems. This should be prioritised through considering the controls around revoking access rights of leavers to prevent the existence of 'ghost' employees as this presents the highest risk to the Authority.</p> | |

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.





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