



cutting through complexity™

Report to those charged with governance (ISA 260) 2011/12

Rotherham Metropolitan Borough Council

12 September 2012



The contacts at KPMG in connection with this report are:

Stephen Clark

Director

KPMG LLP (UK)

Tel: 0113 231 3148

stephen.clark@kpmg.co.uk

Rashpal Khangura

Senior Manager

KPMG LLP (UK)

Tel: 0113 231 3396

rashpal.khangura@kpmg.co.uk

Amy Warner

Assistant Manager

KPMG LLP (UK)

Tel: 0113 231 3089

amy.warner@kpmg.co.uk

Report sections

■ Introduction	2
■ Headlines	3
■ Financial statements	5
■ VFM conclusion	10

Appendices

1. Recommendations	13
2. Declaration of independence and objectivity	14
3. Draft management representation letter	16

Page

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 issues identified during our audit of Rotherham Metropolitan Borough Council's ('the Authority's') financial statements for the year ended 31 March 2012; 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 2011/12, presented to you on 25 April 2012, which summarised our planning and interim audit work.

Financial statements

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



We previously reported on our work on the first two stages in our *Interim Audit Report 2011/12* issued in April.

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

Our final accounts visit on site took place between 16 July and 14 September. During this period, we carried out the following work:

- | | |
|------------------------|---|
| Substantive Procedures | <ul style="list-style-type: none"> ■ 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 | <ul style="list-style-type: none"> ■ 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 2011/12 VFM conclusion. This included work to address the specific risks we identified in relation to:

- RBT; and
- Digital Region Ltd

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 2011/12 financial statements.
- Section 4 outlines the key findings from our work on the VFM conclusion.

Acknowledgements

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

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 2012. We will also report that the wording of your Annual Governance Statement accords with our understanding of the Authority and its arrangements.
Audit adjustments	Our audit has identified no audit adjustments. There were some minor presentational differences but these have no impact on the level of general fund reserves.
Critical accounting matters	<p>We have worked with Officers throughout the year to discuss specific risk areas, which the Authority appropriately addressed.</p> <p>The Authority proactively raised complex accounting treatments in respect of the ending of the partnership with RBT and accounting for the provision for Digital Region Ltd in advance of our final audit visit.</p> <ul style="list-style-type: none"> • RBT – The financial implications of concluding the partnership with BT plc was treated in accordance with guidance on settling financing obligations. • Digital Region Ltd – The Authority’s financial statements include a provision for the costs in relation to the decision to re-procure the Digital Region services under a new business model. <p>In both cases the Authority produced good quality and technically compliant working papers to justify the accounting treatment. Where we raised queries with the accounting treatment, officers responded quickly with further justification and supporting evidence.</p>
Accounts production and audit process	The accounts and supporting working papers were of high quality, that reduced the audit time spent asking for explanation for accounting entries. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the final checks on the financial statements.</p> <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>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.</p>

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

VFM conclusion	<p>We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p> <p>We therefore anticipate issuing an unqualified VFM conclusion by 30 September 2012.</p>
VFM risk areas	<p>We have considered the specific VFM risks we set out in our External Audit Plan 2011/12. We identified two specific risk areas. These were.</p> <ul style="list-style-type: none"> • the conclusion of the partnership agreement with BT; and • the decision to re-procure the Digital Region services under a new business model. <p>In both cases the decisions taken considered appropriate financial and risk considerations.</p>

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

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

Proposed audit opinion

Subject to all outstanding queries being resolved to our satisfaction, we anticipate issuing an unqualified audit opinion by 30 September 2012.

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 adjustments. We identified a number of presentational issues that have been adjusted by management. We also identified a classification issue in relation to treatment of impairment of land. These adjustments do not have an impact on the overall financial position of the Authority.

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.


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

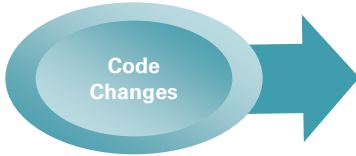
In our *External Audit Plan 2011/12*, presented to you in March, we identified the key risks affecting the Authority's 2011/12 financial statements.

In our *Interim Audit Report 2011/12* we commented on the Authority's progress in addressing these key 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
	<p>As at November 2011, the Authority forecast an overspend on its Budget of £7.393m (3.4%). The main reasons for the projected overspend were the continued demand on services and cost pressures in looking after vulnerable children across the Borough; one off property costs relating to the continued rationalisation of the Council's asset portfolio to drive future efficiencies; and the extended timetable for realising the full forecast management and business support savings.</p> <p>The Authority currently estimates that another £20m in savings will need to be achieved during 2012/13 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Children and Young People's Services it will become more and more difficult to deliver these savings in a way that secures longer term financial and operational sustainability.</p>	<p>Rotherham's Net Revenue Budget for 2011/12 was £219.6 million. Actual spending was £217.6 million, resulting in an underspend of £2 million. This was due to savings, predominantly in Adult Social Services and Central & Other Services, which were able to be used to off-set the £4.1 million overspend in Children & Young Peoples Services.</p> <p>The underspend in Adult Services was mainly due to additional income being received in the last quarter of the financial year in respect of support for the winter period and additional funding for Carers.</p> <p>The underspend on Central & Other Services was achieved through use of Council earmarked reserves, the Council contingency budget and the delivery of accounting opportunities.</p> <p>As part of the revenue budget for 2012/13, savings of £18.3 million have been outlined. As well as directorates putting forward budget saving proposals, there are specific Council wide savings proposed. These include a Council wide staff saving target, not paying staff increments for a second year, and restricting non-pay budgets.</p> <p>The Authority is reviewing the savings requirements for 2013/14 in preparation for the 2013/14 budget setting process. The Authority is currently expecting a minimum savings requirement of £14.1 million.</p>

Key audit risk	Issue	Findings
	<p>The 2011/12 Code includes a number of accounting changes, including a new requirement to carry 'heritage assets' at valuation. Heritage assets include historical buildings, museum and gallery collections and works of art.</p> <p>The 2011/12 Code also clarifies requirements in a number of areas where ambiguity was identified in the 2010/11 Code.</p> <p>The Authority needs to review and appropriately address these changes in its 2011/12 financial statements.</p>	<p>There has been on-going discussions between the Authority and KPMG regarding the requirement in the 2011/12 Code in respect of heritage assets. The Authority has been able to justify its decision to not obtain valuations for the 2011/12 financial statements on the grounds the benefits of such an exercise are outweighed by the costs. The 2011/12 Code allows this position.</p> <p>The Authority has also provided a plan for obtaining valuations for heritage assets for the 2012/13 financial statements that we are satisfied with.</p> <p>The Authority has considered other changes in the 2011/12 Code and has appropriately reflected them in the accounts.</p>

The accounts and supporting working papers were of high quality

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

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant 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 produced a Statement of Accounts to a good standard as in previous years.
Completeness of draft accounts	In accordance with statutory requirements, the Authority published its unaudited Statement of Account by 30 June 2012. 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 <i>Prepared by Client List</i> , which we issued in April, set out our working paper requirements for the audit. Financial Services 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 of Rotherham Metropolitan Borough Council for the year ending 31 March 2012, 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 2 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 Financial Services, which is reproduced in Appendix 3. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

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

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the financial reporting process; and
- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events etc.).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Authority's 2011/12 financial statements.

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.

Background

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.

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.

We have raised one recommendation and this can be seen in Appendix 1.

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

We reported our risk assessment in our Interim Audit Report 2011/12.

The following pages includes further details on our specific risk-based work.

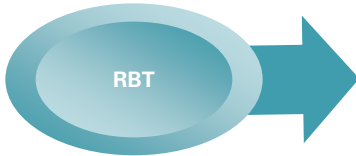
Specific VFM risks

We have now concluded our specific work in relation to the residual risks we set out in our Interim Audit Report 2011/12.

In our Interim Audit Report 2011/12 we identified the residual audit risks for our VFM conclusion, and set out our preliminary assessment of these with reference to the relevant work by the Authority, the Audit Commission, other inspectorates and review agencies.


We concluded that we needed to carry out additional work for some of these risks and this work is now complete.

The outcome of this work is set out below.

Key VFM risk	Preliminary assessment	Key findings of our additional work
	<p>The Authority is seeking to end its partnership with BT and delivery of transactional services in RBT. There are significant initial costs and potential future savings and opportunities from such a change. Given the scale of costs and potential savings there is an impact on value for money.</p> <p>We will review the Authority's value for money analysis and considerations of the proposed changes. If we identify any residual risks we will review those prior to issuing our VFM conclusion.</p>	<p>In taking its decision the Authority:</p> <ul style="list-style-type: none"> • considered the difficulties in pursuing shared service arrangements with other local authorities whilst it was part of RBT; • considered the greater control on future cost savings; • financially modelled the likely financial impact of ending the agreement; • negotiated a financial settlement with BT; and • considered ongoing performance issues. <p>Overall the Authority exercised the expected financial and risk considerations in taking its decision.</p>

Specific VFM risks

We have now concluded our specific work in relation to the residual risks we set out in our Interim Audit Report 2011/12.

Key VFM risk	Preliminary assessment	Key findings of our additional work
 <p>Digital Region Ltd</p>	<p>The Authority's Joint Venture company, Digital Region Limited, has significant liabilities that the Authority (and other members of the joint venture arrangement) would need to fund if Digital Region Ltd ceased trading.</p> <p>We will review the Authority's value for money arrangements in managing the potential issues concerning Digital Region Ltd.</p>	<p>In March 2012, a decision was taken to re-procure the Digital Region services.</p> <p>We have reviewed the in year reporting of this decision within the Authority and are satisfied it has been reported appropriately, reflected in the Authority's risk management processes and within the financial statements.</p> <p>Overall the Authority exercised the expected financial and risk considerations in taking its decision.</p>

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.

The Authority should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up this recommendations next year.

Priority rating for recommendations		
<p>1 <i>Priority one:</i> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

No.	Risk	Issue and recommendation	Management response / responsible officer / due date
1	2	<p>The Joint Venture partners decided in March 2012, that the Digital Region services should be re-procured. This process is now ongoing.</p> <p>The Authority should consider the knowledge and experience of working with Digital Region Ltd and use this in taking this project forward with its partners.</p>	Agreed. Strategic Director of Resources. March 2013.

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. We do this in our Annual Audit Letter.

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.

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 of Rotherham Metropolitan Borough Council for the financial year ending 31 March 2012, 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 ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Rotherham Metropolitan Borough Council (“the Authority”) for the year ended 31 March 2012, B for the purpose of expressing an opinion:

as to whether these financial statements give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority’s expenditure and income for the year then ended; and whether the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

These financial statements comprise the Authority Movement in Reserves Statement, the Authority Comprehensive Income and Expenditure Statement, the Authority Balance Sheet, the Authority Cash Flow Statement, the Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the Collection Fund and the related notes.

The Authority confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Authority confirms that, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Authority has fulfilled its responsibilities, as set out in regulation 8 of the Accounts and Audit (England) Regulations 2011, for the preparation of financial statements that:

- give a true and fair view of the financial position of the Authority as at 31 March 2012 and of the Authority’s expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom

2. The financial statements have been prepared on a going concern basis.

3. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.

4. All events subsequent to the date of the financial statements and for which the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 requires adjustment or disclosure have been adjusted or disclosed.
Information provided

5. The Authority has provided you with:

- access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
- additional information that you have requested from the Authority for the purpose of the audit; and
- unrestricted access to persons within the Authority from whom you determined it necessary to obtain audit evidence.

The Authority has provided you with all information in relation to Digital Region Ltd that is relevant to the preparation of the financial statements, such as records, documentation and other matters it is aware of. All transactions in relation to Digital Region Ltd have been recorded in the financial statements.

6. All transactions have been recorded in the accounting records and are reflected in the financial statements.

7. The Authority acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Authority acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error. J

We ask you to provide us with representations on specific matters such as whether the transactions within the accounts are legal and unaffected by fraud.

The wording for these representations is prescribed by auditing standards.

We require a signed copy of your management representations before we issue our audit opinion.

The Authority has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

8. The Authority has disclosed to you all information in relation to:
(a) Fraud or suspected fraud that it is aware of and that affects the Authority and involves:

- management;
- employees who have significant roles in internal control; or
- others where the fraud could have a material effect on the financial statements; and

(b) allegations of fraud, or suspected fraud, affecting the financial statements communicated by employees, former employees, analysts, regulators or others.

9. The Authority has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

10. The Authority has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

11. The Authority has disclosed to you the identity of the Authority's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as the Authority

understands them and as defined in IAS 24, except where interpretations or adaptations to fit the public sector are detailed in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

11. On the basis of the process established by the Authority and having made appropriate enquiries, the Authority is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business.

The Authority further confirms that:

- (a) all significant retirement benefits, including any arrangements that:
- are statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - are funded or unfunded; and
 - are approved or unapproved,
- have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Audit Committee on *[date]*.

Yours faithfully,

Councillor Sangster - Chair of the Audit Committee

Andrew Bedford – Strategic Director of Resources



cutting through complexity™

© 2012 KPMG LLP, a UK limited liability partnership, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative, a Swiss entity. All rights reserved.

The KPMG name, logo and 'cutting through complexity' are registered trademarks or trademarks of KPMG International Cooperative (KPMG International).