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Report to those charged with governance (ISA - 260) 2012/13

Rotherham Metropolitan Borough
Council

12 September 2013



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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, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 03034448330.

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 2013; and
- our assessment of the Authority's arrangements to secure value for money (VFM) in its use of resources.

Financial statements

Our *External Audit Plan 2012/13* presented to you in January 2013, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process: control evaluation and substantive procedures. Our on site work for these took place in two tranches during March 2013 (interim audit) and July to August 2013 (year end audit). We carried out the following work:

Control Evaluation	<ul style="list-style-type: none"> ■ Evaluate and test selected controls over key financial systems ■ Review internal audit function ■ Review accounts production process ■ Review progress on critical accounting matters
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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.
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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.
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VFM conclusion

Our *External Audit Plan 2012/13* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission. We have completed our work to support our 2012/13 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and
- carrying out additional risk-based work on Digital Region Limited.

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 2012/13 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.

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 2013. We will also report that the wording of your Annual Governance Statement accords with our understanding.
Audit adjustments	Our audit identified no audit adjustments. There were a few minor presentational adjustments, but these have all been amended.
Critical accounting matters	<p>We have worked with Officers throughout the year to discuss specific risk areas. The Authority addressed the issues appropriately.</p> <p>The critical accounting matters were:</p> <ul style="list-style-type: none"> • Digital Region Limited. The financial estimates indicated an increased provision requirement from £6.3m at 31 March 2012 to £7.6m as at 31 March 2013, of which £1.2m was utilised during 2012/13. • Mutual Municipal Insurance. The Authority has now included a provision in the financial statements for £1.32 million. This is based on 28% of the total liability, which is at the upper end of the range suggested by MMI's administrators.
Accounts production and audit process	The accounts and supporting working papers were of high quality. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.
Control environment	<p>The Authority's organisation and IT control environment is effective overall, and controls over the key financial systems are sound. A minor recommendation around the IT systems has been made in order to improve evidence of controls.</p> <p>We are satisfied that internal audit are compliant with the Code of Practice for Internal Audit in Local Government and have again been able to place reliance on their work where this was relevant to our work.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> • Receipt of approved financial statements; • Receipt of a signed management representation letter; and • Testing elements of the provision in relation to Digital Region Limited. <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>
VFM conclusion and risk areas	<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 2013.</p>

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 on the financial statements by 30 September 2013, subject to:

- Receipt of approved financial statements;
- Receipt of a signed management representation letter; and
- Testing elements of the provision in relation to Digital Region Limited.

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 small number of presentational issues that have been adjusted by management.

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; 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 2012/13*, presented to you in January, we identified the key risks affecting the Authority's 2012/13 financial statements.

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

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

Key audit risk	Issue (as stated in January 2013)	Findings
	<p>The latest forecast shows Authority is forecasting that it will overspend against its budget by £1.9 million.</p> <p>The Authority currently estimates that another £20.2 million in savings will need to be achieved during 2013/14 to address the further reductions to local authority funding. Against a backdrop of continued demand pressures in Social Care 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>If there are any related liabilities at year end, these will need to be accounted for in the 2012/13 financial statements as appropriate.</p>	<p>By year end, the Authority had made a saving of £0.888m compared to budget. This is mainly due to surpluses on the trading accounts. Overspends occurred in Children & Young Peoples Services and EDS, but these were offset by under spends in other directorates.</p> <p>The approved budget for 2013/14 identified savings of £20m. The latest financial position shows a forecasted overspend of £4.849m.</p> <p>The Council is in the process of reviewing the budgets for future years and expects savings of approximately £20.5m in 2014/15 and £20.3m in 2015/16 will be required.</p>
	<p>The Authority's Joint Venture Company, Digital Region Ltd has significant liabilities that the Authority (and other members of the joint venture agreement) will need to fund following the decision in March 2012 to re-procure the services. The Authority accounted for this as a provision in the 2011/2012 financial statements.</p> <p>The Authority expects the re-procurement process to have further developed and therefore there will be further information to consider in forming the accounting treatment in the financial statements.</p>	<p>At the 31 March 2013, the Authority (and other members of the joint venture agreement) were still in the process of re-procuring the services. The financial estimates indicated an increased provision requirement from £6.3m at 31 March 2012 to £7.6m as at 31 March 2013, of which £1.2m was utilised during 2012/13.</p> <p>Following the year end the Authority (and other members of the joint venture agreement) took a decision to close Digital Region Limited. The estimated impact of this was a reduction in likely costs the Authority would face.</p>

Critical accounting matters (continued)

Key audit risk	Issue	Findings
 <p>Municipal Mutual Insurance</p>	<p>Municipal Mutual Insurance (MMI) has been in the accounts as a contingent liability for a number of years. It relates to the ceasing of trading by Municipal Mutual Insurance Limited in 1992. It was not clear who was responsible for any liabilities arising, but it was thought some of it would pass to local authorities. However, given that the amount and likelihood was not known, it could not be provided for .</p> <p>In November 2012, administrators took over the management of MMI Limited. As such, there is now an increased chance that local authorities may have to take responsibility for some of the liabilities incurred by MMI.</p>	<p>We have reviewed the accounting treatment for MMI. The Authority has provided for 28% of the maximum liability. This is in line with other local authorities in the region and the guidance provided by the administrators of MMI.</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.

The Authority has implemented all of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

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 continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. This is in the context of having less resource, so represents good performance.
Completeness of draft accounts	<p>We received a complete set of draft accounts on 28 June 2013. There were no changes to the accounts between us receiving them and commencing the audit field work.</p> <p>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.</p>
Quality of supporting working papers	<p>Our <i>Accounts Audit Protocol</i>, which we issued on 16 March 2013 and discussed with Officers, set out our working paper requirements for the audit.</p> <p>The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	Officers resolved all audit queries in timely manner.

Prior year recommendations

As part of our audit we have specifically followed up the Authority's progress in addressing the recommendations in last years ISA 260 report.

The Authority has implemented all/ the majority of the recommendations in our *ISA 260 Report 2011/12* relating to the financial statements.

Appendix 2 provides further details.

Your organisational and IT control environment is sound overall.

We noted a minor area for further improvement.

Work completed

Controls operated at an organisational level often have an impact on controls at an operational level and if there were weaknesses this would have implications for our audit.

We obtain an understanding of the Authority's overall control environment and determine if appropriate controls have been implemented. We do not complete detailed testing of these controls.

The Authority relies on information technology (IT) to support both financial reporting and internal control processes. In order to satisfy ourselves that we can rely on the use of IT, we test controls over access to systems and data, system changes, system development and computer operations.

The focus of our work is around general ledger controls and system access controls.

Key findings

We consider that your organisational and IT controls are effective overall, but noted one minor improvement area in respect of access to systems and data.

Specifically this concerned leavers access to the general ledger not being disabled in a timely manner and some accounts seemingly being accessed after the leaver had left. Following a discussion with the IT team, this is a known issue due to accounts having to be left open to allow payment runs which have been initiated prior to leaving to go through after an individual has left. The way the system is set up, it also registers the disabling of an account as user activity on the account making it appear the account has been accessed and used. The IT team are aware of these issues and are currently working on improving the audit trail in these instances.

Aspect	Assessment
<i>Organisational controls:</i>	
Management's philosophy and operating style	3
Culture of honesty and ethical behaviour	3
Oversight by those charged with governance	3
Risk assessment process	3
Communications	3
Monitoring of controls	3
<i>IT controls:</i>	
Access to systems and data	2
System changes and maintenance	3
Development of new systems and applications	3
Computer operations and end-user computing	3

- Key:
- 1 Significant gaps in the control environment.
 - 2 Deficiencies in respect of individual controls.
 - 3 Generally sound control environment.

Review of internal audit

Internal audit fully complies with the *Code of Practice for Internal Audit in Local Government*.

We were able to place reliance on their work on the key financial systems.

Work completed

The scope of the work of your internal auditors and their findings inform our audit risk assessment.

We work with your internal auditors to assess the control framework for certain key financial systems and seek to rely on any relevant work they have completed to minimise unnecessary duplication of work. Our audit fee is set on the assumption that we can place full reliance on their work.

Where we intend to rely on internal audit's work in respect of the Authority's key financial systems, auditing standards require us to complete an overall assessment of the internal audit function and to evaluate and test aspects of their work.

For 2012/13, the *Code of Practice for Internal Audit in Local Government* defined the way in which the internal audit service should undertake its functions.

We reviewed internal audit's work on the key financial systems and re-performed a sample of tests completed by them.

Key findings

Based on the self-assessment performed by internal audit, our assessment of their files, attendance at Audit Committee and regular meetings during the course of the year, internal audit are compliant with the *Code of Practice for Internal Audit in Local Government*.

We did not identify any significant issues with internal audit's work and are pleased to report that we are again able to place full reliance on internal audit's work on the key financial systems.

Since April 2013, the United Kingdom Public Sector Internal Audit Standards (PSIAS) apply across the whole of the public sector, including local government. These standards are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector. The PSIAS replace the *Code of Practice for Internal Audit in Local Government*. Additional guidance for local authorities is included in the *Local Government Application Note* on the PSIAS.

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 2013, 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 Officers, which is reproduced in Appendix 5. We require a signed copy of your management representations before we issue our audit opinion.

We have asked for a specific management representation regarding Digital Region Limited.

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, non disclosure, related party, public interest reporting, questions/objections, opening balances 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 2012/13 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.

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

The following page includes further details of our VFM risk assessment.

We have identified a specific VFM risk in relation to the Authority’s joint venture agreement with other partners in respect of Digital Region Limited.

Work completed

In line with the risk-based approach set out on the previous page, and in our Audit Plan we have

- assessed the Authority’s key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Authority, the Audit Commission, other inspectorates and review agencies in relation to these risk areas; and


- completed specific local risk based work in relation to the Authority involvement (with other partners) in respect of Digital Region Limited.

Key findings

Below we set out the findings in respect of Digital Region Limited.

Conclusion

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

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Authority’s Joint Venture Company, Digital Region Ltd has significant liabilities that the Authority (and other members of the joint venture agreement) will need to fund following the decision in March 2012 to re-procure the services.</p>	<p>The re-procurement process during 2012/13 led to a preferred bidder being appointed. However, subsequent to their appointment, uncertainties surrounding whether the contract with the preferred bidder is State Aid compliant and the decision of the majority shareholder, BIS, to exit DRL and no longer play a role in its future strategic direction, resulted in the Council together with the other local authority shareholders unanimously agreeing to an orderly managed closure of the business in August 2013. This decision will limit the Authority’s exposure to future losses connected with DRL and the Council expects its share of the overall cost to be contained within the total budget provision made in 2011/12 and 2012/13 of £7.6m</p> <p>The Authority has actively reviewed the situation as it has developed throughout the 2012-13 financial year, and this ongoing monitoring has enabled it to take the difficult decision to close the company. As a result of this active involvement, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in respect of its investment in Digital Region Ltd during 2012-13.</p> <p>The Authority needs to ensure it has appropriate arrangements to ensure the closure of Digital Region Limited is managed to reduce the financial impact on the Authority. The Authority should also ensure that it carries out a review of the Digital Region Project to identify the lessons that should be learned from the initial decision to invest up to the final decision to close the company. This review should, ideally, be carried out jointly with the other stakeholders.</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 these 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	Recommendation	Management response / responsible officer / due date
1	2	The Authority needs to ensure it has appropriate arrangements to ensure the closure of Digital Region Limited is managed to reduce the financial impact on the Authority. The Authority should also ensure that it carries out a review of the Digital Region Project to identify the lessons that should be learned from the initial decision to invest up to the final decision to close the company. This review should, ideally, be carried out jointly with the other stakeholders.	<p>The Council will work closely with the other shareholders to establish appropriate project management arrangements for ensuring that the closure of the business is carried out in an orderly and managed manner which seeks to mitigate the costs to the Council and continues to realise the objectives of the scheme.</p> <p>The Council will consider with the other shareholders the merits of carrying out a review once the closure of the business has been successfully completed.</p>

Appendix 2: Follow up of prior year recommendations

The Authority has implemented all of the recommendations in our ISA 260 Report 2011/12.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2011/12 and reiterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	1
Remain outstanding	0

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at September 2013
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>	Strategic Director of Resources. March 2013	Following the year end the Authority (and other members of the joint venture agreement) took a decision to close Digital Region Limited. See recommendation on page 13.

This appendix sets out the significant audit differences.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in the Authority's case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Corrected audit differences

Rotherham Metropolitan Borough Council had no corrected audit differences to report for the year ended 31 March 2013

Uncorrected audit differences

Rotherham Metropolitan Borough Council had no uncorrected audit differences to report for the year ended 31 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 2013, 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. The spouse of the Director of Finance now works at KPMG. In order to ensure there are no threats to our objectivity and independence, she has no involvement in the audit of the Authority. 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 2013, for the purpose of expressing an opinion as to whether these:

- i. give a true and fair view of the financial position of Rotherham Metropolitan Borough Council as at 31 March 2013 and of its expenditure and income for the year then ended; and
- iii. have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

These financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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 2013 and of the Authority’s expenditure and income for the year then ended; and
 - have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority

Accounting in the United Kingdom 2012/13.

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

2. Measurement methods and significant assumptions used by the Authority in making accounting estimates, including those measured at fair value, are reasonable.
3. 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 2012/13 require adjustment or disclosure have been adjusted or disclosed.

Information provided

4. 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.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. 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.

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.

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.

7. 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.
8. 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.
9. 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 2012/13 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. 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 2012/13.

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 2012/13.

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.

12. 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.

This letter was tabled and agreed at the meeting of the Audit Committee on 25 September 2013.

Yours faithfully,

Chair of the Audit Committee, Director of Finance



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