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# Report to those charged with governance: Value for Money Conclusion 2013/14

Rotherham Metropolitan Borough Council

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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.

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This document summarises our assessment of the Authority's arrangements to secure value for money. :

### Scope of this report

This report summarises the key findings arising from our work in relation to the 2013/14 conclusion on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

### VFM conclusion

Our *External Audit Plan 2013/14* explained our risk-based approach to VFM work, which follows guidance provided by the Audit Commission.

In our *Report to those charged with governance (ISA 260) 2013/14* we reported we were unable to provide a VFM Conclusion in September 2014 as at the time we were considering the impact of the Independent Inquiry into Child Sexual Exploitation in Rotherham. Since then we note OFSTED has completed an inspection of Children's Services and the Report of the Inspection into Rotherham Metropolitan Borough Council has been published.

We have now completed our work to support our 2013/14 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion; and
- considering the results of any relevant work by the Authority and other inspectorates and review agencies in relation to these risk areas (including the above mentioned inspections).

### Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 outlines our 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 and our proposed VFM conclusion.**

### VFM conclusion

We presented our 'Report to those charged with governance (ISA 260) 2013/14' to the Audit Committee in September 2014. At the time we were considering the impact of the Independent Inquiry into Child Sexual Exploitation in Rotherham and as a result were unable to provide our VFM conclusion.

As a result of that report, the Department for Communities and Local Government (DCLG) commissioned an inspection of the Council under section 10 of the Local Government Act 1999. This report was published in February 2015 and highlighted significant weaknesses in relation to the governance of the Council. In November 2014, OFSTED reported its judgement that overall Children's Services were inadequate.

Given these findings, we are proposing to issue an adverse VFM Conclusion. In summary this reports we are unable to conclude that the Authority has adequate arrangements in place to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.

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

#### 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 summarized in the diagram below.

#### Work completed

We performed a risk assessment as part of our planning process and have reviewed this throughout the year and following year end.



The following pages include further details of our VFM risk assessment and our specific risk-based work on the risks identified in our audit plan. We also note we identified a further risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

We also reviewed:

- the Report of the Inspection of Rotherham Metropolitan Borough Council, published in February 2015; and
- OFSTED's judgements on Children's Services, published in November 2014

#### Conclusion

We have concluded that the Authority has not made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We had identified a number of specific VFM risks in our audit plan.

We also identified a further significant risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

#### Work completed

In line with the risk-based approach set out on the previous page, and in our *External 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, inspectorates and review agencies; and
- completed specific local risk based work in relation to the Authority's involvement in respect of Digital Region Limited and around their saving plans for reductions in future funding.

#### Key findings

We have set out below the findings in respect of those areas where we have identified a residual audit risk for our VFM conclusion as reported in our audit plan and the additional risk we identified following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

| Key VFM risk                                                                       | Risk description and link to VFM conclusion                                                                                                                                                                                                                                                                                                                                                                                                                            | Assessment                                                                                                                                                                                                                                                                                                                                                         |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|  | <p>The Authority (and other members of the joint venture agreement) took a decision to close its Joint Venture company, Digital Region Limited (DRL). 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.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p> | <p>We have reviewed the work carried out by the Authority in relation to the closure of DRL. The decision to close was taken on a reasonable and evidence based approach and is being managed appropriately. As such, we have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in the closure of DRL.</p> |

We had identified a number of specific VFM risks in our audit plan.

We also identified a further significant risk during the course of the audit in relation to the Authority's governance arrangements following the publication of the Independent Inquiry into Child Sexual Exploitation in Rotherham.

| Key VFM risk                                 | Risk description and link to VFM conclusion                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Assessment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
|----------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Saving plans for reduction in funding</p> | <p>The Authority currently estimates that £23 million in savings will need to be achieved during 2014/15. The Authority has developed plans with each directorate in order to make these savings. This has been done by identifying the core priorities for the Authority and ensuring services are aligned with these priorities. Further, significant savings will be required in 2015/16 and 2016/17 to principally address future reductions to local authority funding alongside service cost and demand pressures.</p> | <p>We have assessed the controls the Authority has in place to ensure sound financial standing. The Medium Term Financial Plan has taken into consideration the potential funding reductions and it is sufficiently robust to ensure that the Authority can continue to provide services effectively given the funding reductions. We note the Authority reflected a contingent liability for potential claims in relation to child sexual exploitation in the 2013/14 financial statements. The Authority should continue to review the financial impact of these claims and assess the impact on the medium term financial plan.</p>                                                                                                                                                                                 |
| <p>Governance arrangements</p>               | <p>In August 2014, the Independent Inquiry into Child Sexual Exploitation in Rotherham was published. As a result of this DCLG, commissioned an inspection of the Council under section 10 of the Local Government Act 1999.</p> <p>Given the VFM risks in relation to governance identified by the Independent Inquiry we delayed our VFM conclusion to consider the issues and output of the inspection.</p>                                                                                                               | <p>In November 2014, OFSTED published its judgement that Children's Services were overall inadequate. This therefore questioned the Authority's arrangements to deliver quality services for children.</p> <p>In February 2015, the Report of the Inspection of Rotherham Metropolitan Borough Council was published and highlighted significant governance weaknesses. Specifically it reported that the Authority was not fit of purpose and failing in its legal obligation to secure continuous improvement in the way in which it exercises its functions.</p> <p>In the context of our VFM conclusion, the significant weaknesses identified in the Authority's arrangements mean we are unable to be satisfied the Authority has arrangements to secure economic, efficient and effective use of resources.</p> |



## Appendix One

# Proposed VFM Conclusion

We have identified our proposed wording for our VFM Conclusion for 2013/14

### **Basis for adverse conclusion**

In considering the arrangements the Authority has put in place to challenge how it secures economy, efficiency and effectiveness we have reviewed the findings of The Report of the Inspection of Rotherham Metropolitan Borough Council, the OFSTED inspection and our audit evidence.

The Report of the Inspection concluded the Council was not fit for purpose and failing in its legal obligation to secure continuous improvement in the way it exercised its functions. The report also stated the Council is incapable of tackling its weaknesses, without sustained intervention.

The OFSTED inspection judged Children's Services to be inadequate.

Having considered the findings and conclusions of the above inspections together with our audit evidence we are satisfied this provides evidence that key elements of the Authority's corporate governance arrangements are not operating to challenge how it secures economy, efficiency and effectiveness in its use of resources.

### **Adverse conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, the matters reported in the basis for adverse conclusion paragraph above prevent us from being satisfied that in all significant respects Rotherham Metropolitan Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2014.



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