The Audit Findings (ISA260) Report for Rotherham Metropolitan Borough Council

Year ended 31 March 2020

20 November 2020

Contents

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of Rotherham Metropolitan Borough Council ('the Council') and the preparation of the Council's financial statements for the year ended 31 March 2020 for those charged with governance.

Covid-19

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council from March 2020. Given the impact of the pandemic only started from mid-March, additional costs have not had a major impact on the financial outturn for 2019-20, however, the scale of impact is being felt during 2020-21.

There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services, lost income through reduced trading activity and some cessation of services. In addition, council tax payments and business rates payments impacted as lock down started, businesses closed, and staff furloughed.

Authorities are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Practice on Local Authority Accounting, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 21 April 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VFM approach. Further detail is set out on page 6.

Restrictions for non-essential travel has meant both Council and audit staff have had to work remotely, including remotely accessing working papers and financial systems. In addition, meetings have been replaced by telephone and video conferencing arrangements which has also been extended to Council Committee meetings, including the Audit Committee.

This remote working on both sides, combined with the increased level of audit testing performed and audit evidence required (particularly in respect of the significant risk areas of PPE and pensions) resulted in the audit fieldwork taking longer than planned. Given some element of remote/home working is likely to still be in place for 2020-21, we will be discussing with the finance team how we can continue to work together to mitigate these issues next year.

We were provided with the Council's draft 2019-20 statement of accounts on 31 July 2020, ahead of the revised 31 August 2020 deadline.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Council's financial statements:

- give a true and fair view of the financial position of the Council's income and expenditure for the year
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with the audited financial statements including the Annual Governance Statement (AGS) and Narrative Report, is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work was completed remotely mainly throughout the period from September to November 2020. Our findings are summarised on the following pages. We have identified the following adjustment to the financial statements:

- Pension fund liability - an increase in the Council's pension fund liabilities by £7.1m to reflect the actual pension asset valuation as at 31st March 2020, replacing the provisional valuation included within the draft Statement of Accounts.

It should be noted the above adjustment does not impact on the Council's General Fund or useable reserves position. Further details of the audit amendments are reported at Appendix C. We have also raised a small number of recommendations for management as a result of our audit work at Appendix A. Our follow up of recommendations from the prior year's audit are detailed at Appendix B.

Our work is substantially complete and, at the date of this report, there are no matters of which we are aware that would require modification of our audit opinion (Appendix E), subject to the following outstanding matters:

- completing the remaining elements of our work on land and buildings valuations including receiving further responses to our queries , pension fund assets and liabilities, journal and payroll costs,
- assurance from the South Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts was received on 18 Nov. We have not yet assessed these responses at the time of this report as part of our overall audit work on Council's pension liability.

Financial Statements continued		• the finance team clearing any additional responses to the technical 'Hot Review' of the 2019-20 accounts. We can only conclude our audit once we have satisfactory responses to this review • completion of our internal quality review processes, including final reviews of the audit file by both the manager and engagement lead, specifically in respect of significant audit risks of land and buildings valuations and the Pension Fund liability • procedures for Whole of Government Accounts • reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement • obtaining and reviewing the management letter of representation • updating our post balance sheet events review, to the date of signing the opinion. We have concluded that the other information to be published with the financial statements, the Narrative Report and Annual Governance Statement, are consistent with our knowledge of the Council and compliant with the CIPFA Code. Our anticipated audit report opinion will be unqualified with an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings including investment properties as a direct impact of Covid-19. This is due to the Council's valuers reporting a material uncertainty in their valuation reports and also being reported in the Council's financial statements. This is a consistent finding across our local authority audits.
Value for Money arrangements	Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report if, in our opinion, the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources ('the value for money (VFM) conclusion').	We updated our VFM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment. The VFM risks identified at the planning stage of our audit were the Council's financial standing; delivery of 2019-20 budget and savings plans, and the deficit position of the Dedicated School Grant reserve and its recovery plan. We have not identified any new VFM risks in relation to Covid-19. We have completed our risk based review of the Council's value for money arrangements. We have concluded that the Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We anticipate issuing an unqualified 'clean' value for money conclusion, as detailed at Appendix E. Our findings are summarised on section three of this report.
Statutory duties	The Local Audit and Accountability Act 2014 ('the Act') also requires us to: • report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and • to certify the closure of the audit.	We have not exercised any of our additional statutory powers or duties. We have completed the majority of our work under the Code but will not be able to issue our completion certificate until we have completed our work on the Whole of Government consolidation pack.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance and timely collaboration provided by the finance team and other staff during these unprecedented times.

2. Financial statements - Audit approach

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Council's business and is risk based, and in particular included:

- an evaluation of the Council's internal controls environment, including its IT systems and controls
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have had to alter our original Audit Plan from February with an Audit Plan Addendum. The Addendum was as communicated to you on 21 April 2020, to reflect our response to the Covid-19 pandemic.

Conclusion

We have substantially completed our audit of your financial statements and subject to the outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, including an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings as a direct impact of Covid-19. These outstanding items include:

- completing the remain elements of our work on land and buildings valuations including receiving further responses to our queries , pension fund assets and liabilities, journals and payroll costs
- assurance from the South Yorkshire Pension Fund auditor on the 2019-20 Pension Fund accounts was received on 18 Nov. We have not yet assessed these responses at the time of this report as part of our overall audit work on Council's pension liability.
- the finance team clearing any additional responses to the technical 'Hot Review' of the 2019-20 accounts. We can only conclude our audit once we have satisfactory responses to this review
- completion of our internal quality review processes, including final reviews of the audit file by both the manager and engagement lead, specifically in respect of significant audit risks of PPE revaluations and the Pension Fund liability
- reviewing the final version of the financial statements, Narrative Report and Annual Governance Statement
- obtaining and reviewing the management letter of representation and updating our post balance sheet events review, to the date of signing the opinion.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Materiality levels remain the same as reported in our Audit Plan and Audit Plan Addendum.

Materiality area	Council Amount (£)	Qualitative factors considered:
Materiality for the financial statements	9,000,000	Materiality has been based on 1.5% of the Authority's gross expenditure
Performance materiality	6,300,000	Our performance materiality has been set at 70% of our overall materiality
Trivial matters	450,000	This is set at 5% of financial statements materiality and reflects a level below which stakeholders are unlikely to be concerned by uncertainties.
Materiality for specific transactions, balances or disclosures	5,000	The senior officer remuneration disclosure in the Statement of Accounts has been identified as an area requiring a lower materiality due to its sensitive nature.

Significant audit risks

Risks identified in our addendum to the Audit Plan (April 2020)	Auditor commentary
Covid– 19 The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to: • remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates • financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen • disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our work we: • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements and update financial forecasts. We assessed the implications for our materiality calculations. No changes were made to materiality levels previously reported. • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose. Examples include the material uncertainty disclosed by the Council's property valuation expert • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as asset and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • discussed with management the implications for our audit report where we have been unable to obtain sufficient audit evidence. On the basis of our work, we concluded that our anticipated audit report opinion would be unqualified with an emphasis of matter relating to the material uncertainty around the valuation of land and buildings including investment properties. It should be noted that this change to our opinion is a direct result of the impact of Covid-19. The reporting of a material uncertainty on the valuation of land and buildings is consistent across our local authority audits.

Significant audit risks

Risks identified in our Audit Plan (January 2020)	Auditor commentary
The revenue cycle includes fraudulent transactions Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including at Rotherham Metropolitan Borough Council, mean that all forms of fraud are seen as unacceptable.	We reviewed our rebuttal of this risk during the final accounts audit and concluded our assessment as detailed in the Audit Plan was still appropriate. As we did not consider this to be a significant risk for the Council, we did not undertake any specific work in this area other than our normal audit procedures, including validating total revenues to council tax, non domestic rates and central government grants income.
Management over-ride of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Authority faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied and made by management and considered their reasonableness with regard to corroborative evidence • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work to date has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan (January 2020)	Auditor commentary
Valuation of land and buildings The Council revalues its land and buildings on a rolling five-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved (c£905 million) and the sensitivity of this estimate to changes in key assumptions. Additionally, management will need to ensure the carrying value in the Council's financial statements is not materially different from the current value or the fair value (for surplus assets) at the financial statements date, where a rolling programme is used. **Update post March 2020:** The covid-19 pandemic has resulted in the volatility of financial and property markets. This will increase the uncertainty of assumptions applied by management to asset valuations. Therefore we have now included investment properties valuation as well under this significant risk. This significant risk now covers Council dwellings, other land and buildings (as per Audit Plan) and investment properties. We therefore identified valuation of land and buildings, as a significant risk, which was one of the most significant assessed risks of material misstatement.	As part of our audit work, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Council's valuation of land and buildings are not materially misstated and evaluated the design of the associated controls • evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work • evaluated the competence, capabilities and objectivity of the valuation expert • discussed with the valuer the basis on which the valuation was carried out • challenged the information and assumptions used by the valuer to assess completeness and consistency with our understanding, including checking that the floor areas used are consistent with other records. • in a new development for 2019-20, engaged our own valuer to assess the instructions to the Authority's valuer, the Authority's valuer's report and the assumptions that underpin the valuation • tested revaluations made during the year to see if they had been input correctly into the Council's asset register in line with Code guidance. • evaluated the assumptions made by management for those assets not revalued during the year and how management had satisfied themselves that these were not materially different to current value at year end • evaluated whether sufficient audit evidence can be obtained due to Covid-19 impact to corroborate significant management estimates around land and buildings. Whilst our audit work remains on-going, our audit work to date has identified following matters: • The Council's valuation specialist has included a material valuation uncertainty paragraph as a result of Covid-19 in the valuation reports. This is also reported under assumptions made about the future and other major sources of estimation uncertainty within the financial statements (where initially these were reported under PPE section). Therefore, we consider it appropriate to include an emphasis of matter in our audit opinion relating to this material uncertainty around land and buildings valuations. It is important to note that this is a national issue, applying to local authorities with material land and building asset bases.

Significant audit risks

Risks identified in our Audit Plan January 2020)	Auditor commentary
Valuation of pension fund net liability The Council's pension fund net liability, as reflected in the balance sheet as the retirement benefit obligations, represents a significant estimate in the financial statements of the Council. The Council's pension fund net liability is considered a significant estimate due to the size of the numbers involved (PY: £459m) and the sensitivity of the estimate to changes in key assumptions. Update July 2020: According to the draft accounts for 31 March 2020 presented for audit net liability for the Council was £442m. We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement	As part of our work, we have: • updated our understanding of the processes and controls put in place by management to ensure that the Authority's pension fund net liability is not materially misstated and evaluated the design of the associated controls • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work • assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation • assessed the accuracy and completeness of the information provided by the Authority to the actuary to estimate the liability • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary • undertook procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report • obtained assurances from the auditor of the South Yorkshire Pension Fund (SYPF) as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. [currently to be completed further to receipt of information on 18 Nov] • carried out meetings with the actuary to further understand the impact of the McCloud and Goodwin judgements on the pension fund liability, and clarifying our understanding on experience gains and losses calculation. Our audit work on the valuation of the pension fund net liability remains on-going. Our audit work to date has identified; • the figures provided on investment return in the actuary reports were based on asset valuations as at 31 January 2020. As part of the SYPF final accounts process, it has now revised the investment return percentage based on the final fund valuation per SYPF accounts as at 31 March 2020. This takes account of market movements in some investments from January to March 2020. This exercise has resulted a decrease in investment return of 0.63% which in turn has an overall impact of increasing the net pension liability by £7.1m. Management has agreed to amend the revised accounts for this matter. • further to our discussions with the Council's actuary, we have obtained confirmation that the actuary had already made allowances in terms of the impact on the McCloud judgement on their 31 March 2020 actuary report. In terms of Goodwin judgement (a pensions discriminatory legal case), the actuary has confirmed the maximum impact would be a c0.1% increase of the pension liability which amounts to less c£0.5m. This is not deemed material and we have not requested any adjustment to the financial statements. As a result of the pension fund balance being a significant audit risk, we need to be satisfied that we have sufficient and appropriate audit evidence over these material entries. As such, we will need to consider the updated information that we receive from the Pension Fund. We received this on 18 November from the SYPF auditor and currently in the process of reviewing the responses. Should the pension fund auditor's report refer to a material uncertainty on pension fund valuations due to Covid-19, we will need to consider the impact on the Council's accounts and our audit opinion. Our discussions to date with the pension fund auditor has indicated that they are not anticipating to report any material uncertainty on pension fund valuations due to Covid-19.

Significant audit risks

Risks identified in our Audit Plan (January 2020)	Auditor commentary
Implementation of a new Payroll system (iTrent) The Council implemented a new Payroll system, iTrent from 1 June 2019. Based on our knowledge and experience, iTrent payroll systems are used by other local authorities similar in size and scale to the Council. The payroll system is a major financial process that generates a large volume and value of transactions and is central to producing materially accurate payroll payments and the resulting payroll figure in the financial statements. Local authority accounting transactions can be complex and are typically significant in volume. The Authority employs over 5,000 employees and their salaries and pension payments are paid through its payroll system. In 2018-19, over £221m employee benefit expenses were processed and paid through Authority's payroll system. This is c33% (one third) of Authority's total expenditure in 2018-19. Update for 2019-20: The draft 2019-20 accounts presented for audit, show a total of £205m of employee benefit expenses processed through the payroll system. This accounts for c31% of total expenses of the Council for 2019-20 as disclosed in note 1b. Accuracy and completeness of data migration from an old to a new system is paramount for transparent financial reporting. This is considered more important when the system in question processes significant amount of transactions and accounts for nearly one third of Council's total expenditure. There is an inherent risk that things could go wrong in data migration from one system to another due to human and technological errors. We considered this is a risk requiring special audit consideration for our 2019-20 audit.	As part of our audit work, we have: • reviewed management arrangements and understanding of the processes and controls in place to ensure successful migration of data from the old payroll system to the new iTrent system as at 1 June 2019 • through engaging our IT specialists, undertaken work to determine whether adequate controls for new system have been established to ensure that the new system was appropriately authorised, tested, approved before implementation • through our IT specialists, undertook a review to establish how the new system was configured / access allocated and other IT general controls implemented over it to appropriately manage IT risks • examined the opening balances as at 1 July 2019 to confirm these have been completely and accurately brought forward from the old payroll system to iTrent. Our audit work has not identified any issues that we need to report to you in relation to the implementation of the new payroll system.

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Council Housing - £654.9m	The Council is required to revalue its Council housing in accordance with DCLG's Stock Valuation for Resource Accounting guidance. The guidance requires the use of beacon methodology, in which a detailed valuation of representative property types is then applied to similar properties. The Council has engaged its valuer to complete the valuation of these properties. The valuation was at 31 March 2020 and valued Council Housing at £654.9m, a net increase of £16.2m from 2018-19 (£638.7m). The Council's valuation specialist has included a material valuation uncertainty paragraph as a result of Covid-19 in their valuation reports. This is also reported in assumptions made about the future and other major sources of estimation uncertainty within the amended financial statements.	• The Council's RICS qualified valuer valued the entire housing stock using the beacon methodology, in which a detailed valuation of representative property types was then applied to similar properties. • Our work indicated that this methodology was applied correctly during 2019-20 valuation. • There has been an increase in the housing stock valuation of £16.2m during the year (2.5%). • We have compared the valuation movements with the Gerald Eve (valuation specialists) report and held discussions with our own valuation expert. These discussions are still on going. We have also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other relevant indices. These discussions remain on-going and we intend make our conclusions before we issue the audit opinion. • The Council's valuation specialist has included a material valuation uncertainty paragraph as a result of Covid-19 in the valuation reports. This is also reported in the financial statements. Therefore, we are proposing to include an emphasis of matter paragraph on this issue in our audit opinion • We have assessed the Council's valuer, to be competent, capable and objective in carrying out the valuations • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate and have no issues to report • We have agreed the HRA valuation report to the Statement of Accounts and we can confirm that HRA valuation report balance has being correctly accounted for in the financial statements. • Overall this key estimate of valuation includes a material uncertainty as at 31 March 2020 and we concur with that conclusion. As such, we will be reporting this within our audit opinion (as noted at Appendix E).	● Green

Assessment

- ● We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated (red)
- ● We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic (amber)
- ● We consider management's process is appropriate and key assumptions are neither optimistic or cautious (green)

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Land and Buildings – Other - £275.4m **Investment Properties – £32.6m**	Other land and buildings comprises £211.1m of specialised assets such as schools and libraries, which are required to be valued at depreciated replacement cost (DRC) at year end, reflecting the cost of a modern equivalent asset necessary to deliver the same service provision. The remainder of other land and buildings (£64.3m) are not specialised in nature (such as car parks) and are required to be valued at existing use in value (EUV) at year end. The Council has engaged its in-house RICS qualified valuer to complete the valuation of properties on a five yearly cyclical basis as permitted by Code of Practice on Local Authority Accounting. Approximately 80% of total other land and buildings assets (by gross value) were revalued during 2019-20. The Council's valuation specialist has included a material valuation uncertainty paragraph as a result of Covid-19 in the valuation reports. This is also reported in assumptions made about the future and other major sources of estimation uncertainty. The Council has a process in place to assess assets not revalued in year. Based on the revaluation movements observed for assets revalued as part of the rolling cycle, the valuers assess whether other assets within each group are likely to show a significant movement and if so, the valuers will revalue further assets within the group. There is another process to assess the movement between the valuation date (1 April) and the year end. For specialised assets, this assessment is based on the movement in appropriate indices. For non-specialised assets, which are valued using market based inputs, an exercise is undertaken to ensure key inputs remain appropriate. Revaluations at the year end are processed when deemed appropriate by the valuers to give management assurance that the closing current value is not materially different to its' carrying value. The total year end valuation of Other land and buildings (excluding surplus assets) was £275.4. **Investment Properties:** All investment properties (note 20 to the financial statements) have been valued as at 31 March 2020 at fair value based on a market approach, which takes in to account existing lease terms and rentals, research into market evidence including market rentals and yields, the covenant strengths for existing tenants and data and market knowledge gained in managing the Council's investment property portfolio. The fair value hierarchy and valuation techniques used to determine fair value of investment properties are further disclosed in note 20 to the accounts.	• We have assessed the Council's in-house valuer, to be competent, capable and objective • We have carried out completeness and accuracy testing of the underlying information provided to the valuer used to determine the estimate, including floor areas and have no issues to report • The valuation methods remain consistent with the prior year • In relation to assets not revalued in the year, we have compared the Gerald Eve (valuation specialists) report and held discussions with our own valuation expert. These discussions are still on going. We have also challenged the Council's valuation specialist on valuation differences identified through our sensitivity analysis work using other indices. These discussions are still on-going and we intend make our conclusions before we issue the audit opinion. • The Council's valuation specialist has included a material valuation uncertainty paragraph as a result of Covid-19 in the valuation reports for both land and buildings and investment properties. This is also reported in the financial statements. Therefore, we are proposing to include an emphasis of matter paragraph on this issue in our audit opinion • Overall this key estimate of valuation includes a material uncertainty as at 31 March 2020 and we concur with that conclusion.	● Green

Significant findings – key estimates and judgements

Accounting area	Summary of management's policy	Auditor commentary	Assessment
Net pension liability (before adjustment) – £442m	Per the draft accounts, the Council's net pension liability at 31 March 2020 is £442m (PY £459m) comprising the South Yorkshire Local Government Pension Scheme. The Council uses Mercers to provide actuarial valuations of the Council's assets and liabilities derived from this scheme. A full actuarial valuation is required every three years. The latest full actuarial valuation was completed at 31 March 2019, utilising key assumptions such as life expectancy, discount rates, salary growth and investment returns. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a c£17m net actuarial gain during 2019-20.	• We have assessed the Council's actuary, Mercer, to be competent, capable and objective • We have performed additional tests in relation to accuracy of contribution figures, benefits paid, and investment returns to gain assurance over the 2019-20 roll forward calculation carried out by the actuary and have no issues to raise. • We have used PwC as our auditor expert to assess the actuary and assumptions made by the actuary – see table below for our comparison of actuarial assumptions:	

Assumption	Actuary Value	PwC comments	Assessment
Discount rate	2.3% - 2.4%	Assumption appears reasonable	● Green
Pension increase rate	2.1%	Assumption appears reasonable and methodology appropriate.	● Green
Salary growth	1.25% - 1.5% above CPI	In line with 2019 valuation.	● Green
Life expectancy – Males currently aged 45 / 65	Pensioners: 22.4 Non-pensioners: 23.9	Overall mortality assumptions appear reasonable.	● Green
Life expectancy – Females currently aged 45 / 65	Pensioners: 25.3 Non-pensioners: 23.1	Overall mortality assumptions appear reasonable.	● Green

- We have confirmed the controls and processes over the completeness and accuracy of the underlying information used to determine the estimate
- We have confirmed there were no significant changes in 2019-20 to the valuation method
- Reasonableness of estimate – following the estimate of asset values from 31 January to the actual outturn at 31 March 2020, the Council has agreed to revise its valuation estimate and increase the pension liability by £7.1m.

Our work in this area is still in progress, including the assurance from the Pension Fund auditor as indicated at page 9.

Significant findings – Going Concern

Our responsibility: As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary	Auditor commentary
Management's assessment process Management has an established process in place and prepare a detailed budget each year which is approved by Members. The budget is developed based on a number of assumptions including funding from Government, savings required to be delivered and the pressures facing the Council. To ensure effective management, the budget is broken down by service area and routinely monitored on a monthly basis with performance reported to Cabinet. Cash flow is also routinely monitored as part of the Council’s treasury management arrangements. The Council has in place a two year Medium Term Financial Strategy 2021-22 – 2022-23 to allow it to effectively plan its finances ahead and ensure it is able to effectively manage its financial position. The updated MTFS will be presented to the Cabinet on 23 November and incorporates the impact of Covid-19. In assessing its going concern position, management look ahead twelve months from its reporting date and have regard to its future cash flow position including whether current spending is in accordance with budget.	• Following its review of going concern, management has concluded it remains a going concern and it is appropriate to continue to prepare its accounts on a going concern basis. • As reported to the Cabinet in July 2020, the Council delivered the 2019-20 budget. The final outturn for 2019-20 was a balanced budget which required £1.2m of Corporate Reserves. This use of reserves was £2m less than initially budgeted figure of £3.2m. As a result, £2m of Corporate Reserves will now be carried forward to be used in future budget requirements. There were overspends on Children's and Young People’s budget (£4.4m), Adult Care Housing and Public Health (£0.7m), Regeneration and environment (£2.5m). These were compensated by underspends on Central services (£5.6m) and other Directorates by £0.8m, resulting a requirement of £1.2m of the corporate budget contingency reserve. • The Council’s total usable reserves (capital and revenue) decreased by £9.3m during the year from £107.8m in 2018-19 to £98.4m. Total General Fund earmarked reserves increased from £38.1m from 2018-19 to £49.3m . The main contributor for this is increase was £15.2m Covid-19 grant funding which was received in March 2020 and now earmarked for Covid-19 related responses in the future. However, the DSG reserve deficit increased by £4.7m from £15.1m to £19.8m and more reporting on the DSG deficit is covered at page 22 of this report. • The budget setting processes to prepare the annual budget and the monitoring arrangements in place are considered appropriate and adequate • The Strategic Director – Finance and Customer Services (s151 Officer) and Assistant Director Financial Services routinely monitor the Council’s financial position and report regularly to Members. • The Covid-19 pandemic has had a considerable impact on the Council from March 2020. Whilst the additional costs have not had a significant impact on the financial outturn for 2019-20 given the pandemic started to impact from mid-March, the scale of impact is being felt during 2020-21. There have been significant financial challenges as the Council responded to the COVID-19 pandemic through additional costs to support operational services and lost income through reduced trading activities. • According to the Council’s latest data return submission to MHCLG, which was made in early October covering 6 months up to end of 30 September 2020, it estimated a gross overall impact of Covid-19 for 2020-21 to be £26.7m. This is derived from additional costs of £11.7m, £6.8m of non delivery of savings due to Covid-19 and £8.2m of income losses up to the 6 months period. • This £26.7m impact is reduced by £18.9m Covid-19 support grants received from the Government plus further income loss compensation funding received to date of £2.5m to date, leaving a net pressure of £5.3m purely due to Covid-19 financial pressures. However, the budget monitoring report to Cabinet for the same 6 months (up to 30 September 2020) indicates an overspend budget at the year end of 2020-21 of £2.3m . The £3m difference is a net impact of all other non Covid related underspends and overspends forecasted by the year end.

Significant findings – going concern

Going concern commentary	Auditor commentary
Work performed We considered management's going concern assessment including the assumptions used and consideration of its Medium Term Financial Strategy.	• There are two further periods of grant claims under the COVID-19 income loss compensation scheme in the second half of the 2020-21 from October 2020 to March 2021. Taking these into account, the Council deems it reasonable to anticipate that these further claims and subsequent payments of grant will cover the remaining £2.3m forecast overspend and therefore the financial year-end position will be a broadly balanced budget outturn. Our review has noted that this is not an unreasonable assumption. • Further management actions in 2020-21 continue to be identified with the clear aim of bringing expenditure into line with budgets. This includes careful scrutiny of expenditure and monitoring and tracking of savings. Other reviews to identify alternative mitigations continue for the remainder of the financial year to help the Council through the pandemic. • Considering these plans, the availability of specific budget contingency reserves of £2m not called upon in 2019-20 (see previous page) and loss of income compensation claims from October 2020 to March 2021, the Council is in a position to deal with the Covid-19 pandemic impact in 2020-21. This is without the need for any requirement to draw on further funding requests from MHCLG (for example capitalisation orders) or the need to set an emergency budget. • The updated MTFS covering 2021-22 and 2022-2023 will be presented for approval to the Cabinet on 23 November. We have considered the revised MTFS which incorporates the impact of Covid-19. The MTFS update is a interim review and it will be further reviewed in advance of the Council's Budget setting meeting in March 2021 to take account of the Local Government Finance Settlement for 2021-22 when issued. • The updated MTFS shows that a balanced budget can be maintained for 2021-22. The two year MTFS includes achievement of £30m savings requirement which was set in 2019. The 2021-22 budget includes £8.5m treasury management savings and utilisation of £4m budget contingency budget and £2m budget contingency reserve carried forward from 2019-20 as indicated on page 14. The GF and earmarked reserves at end of 2020-21 and 2021-22 are currently projected at £37.9m and £35.7m respectively. At this stage, a funding gap of £7.6m is anticipated for 2022-23. Further review will be conducted in March 2021 when funding mechanisms and Covid-19 impacts are more clearer than now as at November 2020. • Our work confirmed management's arrangements for assessing going concern are adequate and management's use of the going concern basis of preparation is reasonable. • We have not identified any material uncertainties that may cast significant doubt on the Authority's ability to continue as a going concern for the foreseeable future.
Concluding comments	We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: • the Strategic Director – Finance and Customer Service's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or • the Strategic Director – Finance and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue. We are satisfied with management's assessment that the going concern basis is appropriate for the 2019-20 financial statements.

Other matters for communication

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Auditor commentary
Matters in relation to fraud	We have discussed the risk of fraud with the Chief Financial Officer (s151) and Head of Financial Services (Corporate) and have also written to the Chair of the Audit Committee. We have not been made aware of any material incidents in the year and no other issues have been identified during the course of our audit.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed based on our work undertaken to date.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
Written representations	A letter of representation has been requested from the Council which is included as a separate agenda item in the Audit Committee papers.
Confirmation requests from third parties	We requested from management permission to send confirmation requests to the Council's banks. This permission was granted and the confirmation has been received.
Disclosures	Our review found no material omissions in the financial statements to date. Our work did identify a small number of presentational disclosure amendments which have been processed by management and these are set out at Appendix B. Some of these disclosure updates arose from our technical 'Hot Review' of the Council's accounts. There is one adjusted misstatement which is reported at Appendix B. There are no unadjusted errors or misstatements.
Audit evidence and explanations / significant difficulties	There were some undoubted challenges for the audit team due to delivering the year-end audit in a wholly remote fashion. In addition, the finance team has had to deal with significant levels of Covid related activities at the same time as the year end audit process. When combined with the increased level of audit testing performed and audit evidence required, this has resulted in the audit fieldwork taking longer than planned. As a result, there is the possibility that the completion of the 2019-20 audit may need to extend beyond 30 November 2020 by a short period. Should this situation occur, as in the prior year, the Council would need to disclose this point on its website. Similarly, there would be no financial penalty arising from any delay after 30 November. Given some element of remote/home working is likely to still be in place for 2020-21, we will be discussing with the finance team how we can continue to work together to mitigate these issues next year.

Other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our review of the AGS identified a small number of areas for enhanced disclosure. The Council has accepted our findings on the AGS and a revised version is due to be presented to the Audit Committee on 24 November 2020. Our review of the Narrative Report also identified some areas for enhanced disclosure. The Council has agreed to update its Narrative Report to take into account our comments. Subject to satisfactory receipt and review of the revised AGS and Narrative Report taking into account our comments, we plan to issue an unmodified opinion in this respect – please see our proposed audit opinion at Appendix E.
Matters on which we report by exception	We are required to report on a number of matters by exception in a numbers of areas: • If the Annual Governance Statement does not meet the disclosure requirements set out in the CIPFA/SOLACE guidance or is misleading or inconsistent with the other information of which we are aware from our audit • If we have applied any of our statutory powers or duties Following the expected updating of the AGS referred to above, we have nothing to report on these matters.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA group audit instructions. As the Council exceeds the specified group reporting threshold, we will be required to examine and report on the consistency of the WGA consolidation pack with the Council's audited financial statements. This work has not yet commenced and will be completed once all other audit work has been concluded.
Certification of the closure of the audit	As a result of the need to complete the WGA work noted above, we do not expect to be able to certify the completion of the 2019-20 audit of the Council in our auditor’s report, as detailed at Appendix E. This is in common with a number of local authorities where certification on closure of the audit takes place following completion of the WGA review in December 2020.

3. Value for Money

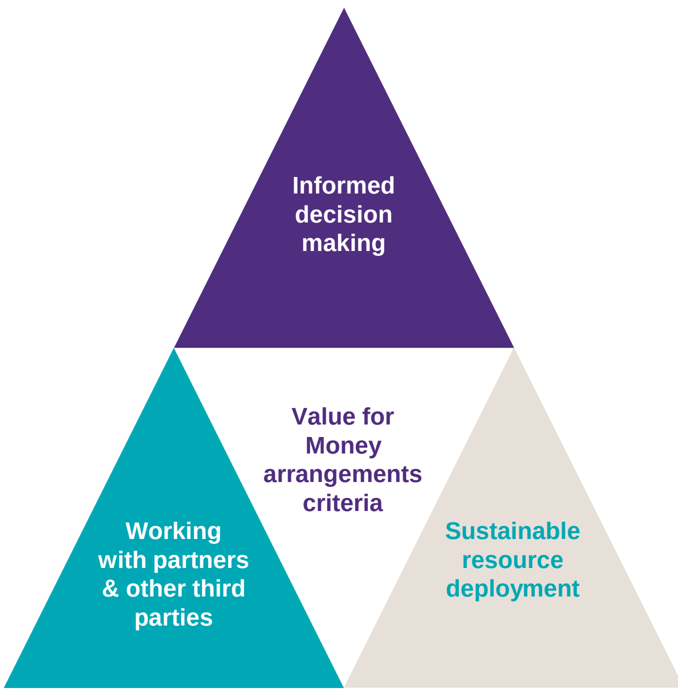
Background to our VFM approach

We are required to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. This is known as the Value for Money (VFM) conclusion.

We are required to carry out sufficient work to satisfy ourselves that proper arrangements are in place at the Council. In carrying out this work, we are required to follow the NAO's Auditor Guidance Note 3 (AGN 03) issued in April 2020. AGN 03 identifies one single criterion for auditors to evaluate:

"In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people."

This is supported by three sub-criteria, as set out below:



Risk assessment

We carried out an initial risk assessment in January 2020 and identified two significant risks in respect of specific areas of proper arrangements using the guidance contained in AGN03. We communicated these risks to you in our Audit Plan in February 2020.

We have continued our review of relevant documents up to the date of giving our report, and have not identified any additional significant risks where we need to perform further work.

Value for Money

Our work

AGN 03 requires us to disclose our views on significant qualitative aspects of the Council's arrangements for delivering economy, efficiency and effectiveness.

We have focused our work on the significant risks that we identified in the Council's arrangements. In arriving at our conclusion, our main considerations were:

1. **Financial standing** – **delivery of 2019-20 budget and savings plan:** the Authority as other authorities, continues to operate under significant financial pressures and achieving the set budget is considered as a key risk.
2. **Dedicated School Grant (DSG) deficit position and recovery plan** - The DSG reserve was materially in deficit at £15.1m as at 31 March 2019. During the previous two years, the DSG deficit has increased by c10m and continued to be a significant financial and service challenge for the Council. Therefore we considered this as a significant VFM risk for 2019-20.

We have set out more detail on the risks we identified, the results of the work we performed, and the conclusions we drew from this work on pages 20 to 24.

Overall conclusion

Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The text of our report, which confirms this can be found at Appendix E.

Significant difficulties in undertaking our work

We did not identify any significant difficulties in undertaking our work on your arrangements which we wish to draw to your attention.

Significant matters discussed with management

There were no matters where no other evidence was available or matters of such significance to our conclusion or that we required written representation from management or those charged with governance.

Key findings

We set out below our key findings against the significant risks we identified through our initial risk assessment and further risks identified through our ongoing review of documents.

Significant risk as reported in our Audit Plan (January 2020)	Findings	Conclusion
Financial standing - delivery of 2019-20 budget and savings plan The Authority achieved a balanced budget for 2018-19 under a challenging environment. Although the actual expenditure for 2018-19 was £9.6m more than the approved 2018-19 budget this was mitigated by use of directorate balances (£3.9m), and in year use of other budgetary measures of £5.7m, (including budget contingency reserves of £2m). As a result, the general fund reserves reduced from £48m to £41.5m excluding the DSG deficit of £15.1m (see below). For 2019-20, the Authority is planning to deliver a balanced outturn position but to achieve this, needs to deliver savings of some £7.7m whilst continuing to manage cost and demand pressures within Children's Services, Adult Social care, DSG and other vital services for the local population. The Month 7 Financial Monitoring Report presented to Cabinet indicates the Authority is currently projecting an overall general fund overspend of £4.1m at the year end. This arises from continuing pressures on social care services and some timing issues with the delivery of some budget savings which are taking longer than anticipated to be achieved in full. The Council has £3.2m of the budget contingency reserve remaining and continues to work to identify further mitigating budget savings and cost reductions in order to maintain a balanced budget position. We will continue to assess progress in the delivery of the savings approved within the two-year budget for 2019-20 and 2020-21. We note that the current iteration of the MTFS does not require further savings to be identified for 2021-22.	**2019-20:** • As reported to the Cabinet in July 2020, the Council delivered the 2019-20 budget. The final outturn for 2019-20 was a balanced budget which required £1.2m of Corporate Reserves. This use of reserves was £2m less than initially budgeted figure of £3.2m. As a result, £2m of Corporate Reserves will now be carried forward to be used in future budget requirements. There were overspends on Children's and Young People's budget (£4.4m), Adult Care Housing and Public Health (£0.7m), Regeneration and environment (£2.5m). These were compensated by underspends on Central services (£5.6m) and other Directorates by £0.8m, resulting in a requirement of £1.2m of the corporate budget contingency reserve. • The Council's total usable reserves (capital and revenue) decreased by £9.3m during the year from £107.8m in 2018-19 to £98.4m. Total General Fund earmarked reserves increased from £38.1m from 2018-19 to £49.3m . The main contributor for this is increase was £15.2m Covid-19 grant funding which was received in March 2020 and now earmarked for Covid-19 related responses in the future. However, the DSG reserve deficit increased by £4.7m from £15.1m to £19.8m and more reporting on the DSG deficit is covered at page 22 of this report**.** • The Council delivered part of its 2019-20 savings target of £7.7m, in achieving the balanced budget in 2019-20 under challenging circumstances. • As reported to the Cabinet in July 2020, the Council's General Fund minimum balance has now been increased to £20.7m as of 31 March 2020 from £16.8m at the previous year end. This general fund reserve is to mitigate against future significant financial impacts adversely affecting the Council. • Overall, the Council delivered the 2019-20 budget despite challenging financial pressures and the increasing demands on social care in the year. **2020-21:** • The Covid-19 pandemic has had a considerable impact on the Council from March 2020. Whilst the additional costs have not had a significant impact on the financial outturn for 2019-20 given the pandemic started to impact from mid-March, the scale of the impact is being felt during 2020-21.	The Council operates under significant financial pressures, however, it continues to have arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources. The Covid-19 pandemic has had a significant impact on the Council from mid March 2020, with additional costs to support operational services, lost income, and implications of potential reduced council tax and business rates payments. The Council continues to manage its financial position and is dealing with the impact of Covid-19. The Council has not had to contemplate an emergency budget to offset the impact of Covid and has plans in place to deal with the expected cost of Covid. The impact of Covid-19 for 2019-20 was limited given its impact commenced during March 2020. The net impact for 2020-21 has been estimated by the Council at £5.3m. We therefore concluded that there are appropriate arrangements in place for sustainable resource deployment. This supports our proposed 'clean' unqualified VFM conclusion.

Significant risk	Findings (continued)	Conclusion
Financial Standing - continued	• According to the latest data return submission to MHCLG, which was made in early October covering 6 months up to end of 30 September 2020, it estimated a gross overall impact of Covid-19 for 2020-21 to be £26.7m. This is derived from additional costs of £11.7m, £6.8m of non delivery of savings due to Covid-19 and £8.2m of income losses up to the 6 months period. • This £26.7m impact is reduced by £18.9m Covid-19 support grants received from the Government plus further income loss compensation funding received to date of £2.5m to date, leaving a net pressure of £5.3m purely due to Covid-19 financial pressures. However, the budget monitoring report to Cabinet for the same 6 months (up to 30 September 2020) indicates an overspend budget at the year end of 2020-21 of £2.3m . The £3m difference is a net impact of all other non Covid related underspends and overspends forecasted by the year end. • There are two further periods of grant claims under the COVID-19 income loss compensation scheme in the second half of the 2020-21 from October 2020 to March 2021. Taking these into account, the Council deems it reasonable to anticipate that these further claims and subsequent payments of grant will cover the remaining £2.3m forecast overspend and therefore the financial year-end position will be a broadly balanced budget outturn. Our review has noted that this is not an unreasonable assumption. • Further management actions in 2020-21 continue to be identified with the clear aim of bringing expenditure into line with budgets. This includes careful scrutiny of expenditure and monitoring and tracking of savings. Other reviews to identify alternative mitigations continue-for the remainder of the financial year to help the Council through the pandemic. • Considering these plans, the availability of specific budget contingency reserves of £2m not called upon in 2019-20 (see previous page) and loss of income compensation claims from October 2020 to March 2021, the Council is in a position to deal with the Covid-19 pandemic impact in 2020-21. This is without the need for any requirement to draw on further funding requests from MHCLG (for example capitalisation orders) or the need to set an emergency budget **2021-22 and 2022-23:** • The updated MTFS covering 2021-22 and 2022-2023 will be presented for approval to the Cabinet on 23 November. We have considered the revised MTFS which incorporates the impact of Covid-19. The MTFS update is a interim review and it will be further reviewed in advance of the Council's Budget setting meeting in March 2021 to take account of the Local Government Finance Settlement for 2021-22 when issued. • The updated MTFS shows that a balanced budget can be maintained for 2021-22. The two year MTFS includes achievement of £30m savings requirement which was set in 2019. The 2021-22 budget includes £8.5m treasury management savings and utilisation of £4m budget contingency budget and £2m budget contingency reserve carried forward from 2019-20 as indicated on page 14. The GF and earmarked reserves at end of 2020-21 and 2021-22 are currently projected at £37.9m and £35.7m respectively. At this stage, a funding gap of £7.6m is anticipated for 2022-23. Further review will be conducted in March 2021 when funding mechanisms and Covid-19 impacts are more clearer than now as at November 2020. The key challenges for the Council remain increasing costs and demand pressures on social care services. As a result of these key challenges, there is a continuing risk of delivering budgets and savings plans as approved. These challenges are further intensified by the Covid-19 pandemic. Therefore, prudent budget setting (including maintaining an adequate level of reserves) with reasonable assumptions, monitoring and taking appropriate action against any budget variations should continue to be an integral part of the Council's financial sustainability. **[Rec 2: Action Plan]**	See page 20

Significant risk per our Audit Plan Reported in January 2020	Findings	Conclusion
Dedicated School Grant (DSG) deficit position and recovery plan The DSG reserve was materially in deficit at £15.1m as at 31 March 2019. This was an increase of £5.4m during 2018-19 period. During 2017-18 the reserve increased by £4.5m to £9.6m deficit. Therefore, during the two years (2016-17 and 2017-18), the DSG deficit has increased by c10m. DSG net expenditure continues to be a challenging service area for the Council in 2019-20 and for the foreseeable future. The Council set a 3 year recovery plan at the end of 2018-19 to reduce the rate of deficit increase from £15.1m in 2018-19 to £17.6m in 2021-22 (a £2.5m increase over 3 year period). The forecast at the end of October 2019 shows an in-year pressure of £3.3m which may increase the deficit to £18.4m at the year end against a planed deficit of £16.5m for 2019-20.The main pressures are linked to alternative provision, high cost external residential and independent sector placements. As part of our Value for Money arrangements work we will continue to consider the Council's arrangements in place to achieve the DSG recovery plan, other contingency plans and accounting for the DSG deficit in line with relevant guidance available.	**2019-20 outturn** • The outturn position on the DSG reserve was a deficit of £19.9m. This was over £3m above the agreed plan for 2019-20, which was a planned £16.5m deficit. • As part of our 2019-20 work, we conducted detail discussions with senior management on a regular basis regarding the DSG deficit position in order to understand the reasons behind the increase in the DSG deficit. • During recent years Rotherham has faced growing pressure on the High Needs Budget (HNB) which has resulted in year on year deficits. In 2015-16 the HNB in-year deficit was £1m, in the subsequent three years the annual HNB deficit has been £5m, with a further deficit in 2019-20 of £4.6m. This has been a major contributing factor in the reported DSG deficit reserve of £19.9m. • The over spend is as a result of a number of factors; an increase in Education Health and Care Plans, increase in the number of over 16 young people with an Education Health and Care Plans (EHCP) who are now the responsibility of the LA to fund (potentially until they are age 25) and an increase in the number of young people accessing higher cost provision. The DSG deficit recovery plan is predominantly linked to resolving the budget pressures in the HNB. • As part of the short term strategy to address the annual pressures, a disapplication request was submitted to the Secretary of State to transfer £2.9m from the Schools Block to the High Needs Block in 2020-21. This request was approved by Education and Skills Funding Agency (ESFA). • The Government's spending review announced additional funding for schools and high needs. Compared to 2019-20 funding, this will rise by £2.6 billion for 2020-21, £4.8 billion for 2021-22 and £7.1 billion for 2022-23. In 2020/21 the £2.6 billion is split £1.9 billion to the Schools Block and £0.7 billion to the High Needs Block. For Rotherham this is an additional £6.2m for schools and £4.8m in the High Needs Block for the 2020-21 financial year. This will help the 2020-21 DSG budget and spending pressures to an extent. • We have seen regular updates to the Audit Committee and the Cabinet on the DSG reserve and performance against the Council's plan throughout 2019-20. This was one of our key recommendations from our 2018-19 audit and it is pleasing to see this implemented. **Updated Guidance for auditors from the NAO – September 2020:** • The NAO in its regulatory role provides guidance for public sector auditors and details auditor's responsibilities in relation to the work required on the VFM conclusion. The latest NAO guidance, issued in September 2020, indicated the following (key messages) in respect of material deficit DGS reserves: • New regulations from 2020-21 mean that when setting budgets for 2020-21 onwards, material cumulative DSG deficits no longer have a direct impact on the general fund, as the DSG reserve cannot be funded from it without explicit permission from the Secretary of State. So, while the general fund position relative to the DSG deficit may be a concern as at 31 March 2020, it will not be a relevant consideration from 1 April 2020.	The Council did not achieve its deficit reduction plan set in July 2019 for 2019-20. The overall deficit target was £16.5m as at 31 March 2020 but the actual deficit was £19.9m, missing the target by £3.5m. However, the NAO issued further guidance to public sector auditors in September 2020, when considering material DSG deficits. Having considered the NAO guidance covering the 4 criteria specified (see pages 23 -24), our view is that our proposed VFM conclusion is unqualified in relation to the DSG deficit as at 31 March 2020. However, we have made a recommendation to the Council on its revised DSG deficit plans in order to continue to reduce this deficit. Please see the Action Plan at Appendix A. **[Rec 1]**

Significant risk per our Audit Plan (January 2020)	Findings	Conclusion
Dedicated School Grant (DSG) deficit position and recovery plan (continued)	• Therefore, the existence of a material negative DSG reserve (which is the case for Rotherham at £19.9m as at 31 March 2020) is of itself not relevant to the 2019-20 VFM arrangements conclusion in terms of arrangements for sustainable resource deployment over the medium term. • Instead, the NAO guidance notes the VFM arrangements conclusion considerations for DSG in 2019-20 should include a focus on the following and any other matters that the auditor deems relevant. Therefore we have assessed the Council's material DSG deficit against the four criteria set out by the NAO guidance. This forms the key part of our VFM conclusion on the Council's DSG deficit. **(1) Has the body demonstrated engagement with DfE in respect of its DSG deficit and what are the actions arising from these discussion?** • Our work indicates that the Council continues to engage with the ESFA and discuss these matters. As indicated at page 22, actions are then reported to the Cabinet, Audit Committee and the School's forum on Council's plans to control the increasing deficit. The disapplication request which was discussed and agreed by the Secretary of State to transfer £2.9m from the Schools Block to the High Needs Block in 2020-21 was a result of these engagements. Our discussions with senior management and review of papers and associated discussions at Audit Committee also highlighted the commitment of management to address this issue. • This criteria is sufficient met by the Council's arrangements. **(2) Does the authority have a deficit recovery plan based on reasonable assumptions?** • The latest recovery plan was produced and presented to the School's Forum in September 2020. The DSG deficit is currently forecasting to increase by £420k in 2020-21 leading to a forecast closing deficit of £20.3m for 2020-21. In headline terms, the current working assumption for 2020-21 is that if the Council is successful in securing a further 1.5% movement between blocks on disapplication in 2021-22, then the deficit forecast would reduce by around £1.5m in the following financial year (2021-22). • In terms of the HNB, where the deficit was £4.63m in 2019-20, there is a recovery plan to reduce this in the next three years with a deficit of £508k in 2020-21, a surplus of £781k in 21-22 and further surpluses in 22-23 and 23-24 years after Schools Block Transfers. • At this time last year, the Council was projecting a planned £16.5m DSG deficit as at 31 March 2020, however, actually delivered a £19.9m outturn - missing the target by £3.5m. Therefore there are some reservations in terms of meeting the NAO's criteria on this question, albeit the Council has continued to update the recovery plan based on its best assumptions. • This criteria is partially met by the Council's arrangements. **(3) Where deficits are continuing to grow, does the authority understand why? Is there evidence of a correlation between increasing demand and the rising costs?** • There is a very clear understanding of why the deficit has grown over the last four years which is due to HNB demand. Review of the Council's reporting of this issue and our discussions with senior management indicates the Council has a very clear understanding why this has increased at Rotherham.	See page 22

Significant risk per our Audit Plan (January 2020)	Findings	Conclusion
Dedicated School Grant (DSG) deficit position and recovery plan - continued	• The Rotherham District has had historic and well publicised Child Sexual Exploitation cases, culminating in the Jay report and subsequent Operation Stovewood. Special needs children and child welfare is a key priority for the Council over the last five years and continues to be. We covered this area in detail in last year's VFM conclusion and is undoubtedly a factor in why significant costs within the HNB have occurred. **(4) Do Members fully understand the position, risks and actions being taken?** • The Council's DSG deficit position has been a standard agenda item during our routine liaison meetings with senior management throughout 2019-20 and to date. These discussions have also indicated management has a sound understanding of the local issues, reasons behind HNB budget challenges and actions to be taken to reduce that. • Importantly, management has reported and updated the Cabinet and Audit Committee members throughout the 2019-20 year regarding the DSG deficit. As indicated in going concern section, there is monthly reporting to the Cabinet on budget monitoring and these financial performance reports include an item on the DSG deficit. In addition, the annual 2019-20 outturn report to the Cabinet, presented in July 2020, summarises DSG performance including the High Needs Block budget pressures and actions. • This criteria is sufficiently met by the Council's arrangements. **Summary:** • Before reaching our conclusion, it should be noted that the Council did not achieve its deficit DSG reduction plan set in July 2019 for 2019-20. As indicated, the overall deficit target was £16.5m as at 31 March 2020 but the actual deficit was £19.9m, missing the target by £3.5m. Were it not for the new guidance from the NAO issued in September 2020, our conclusion could have ultimately been somewhat different. • We acknowledge this is a ring fenced specific grant and it must be used in support of the schools budget as defined in the School and Early Years Finance (England) (No 2) Regulations 2018. In accordance with current Government policy, this deficit can be carried forward to be addressed in future years and only be used for schools budget and cannot be netted off against any other general fund reserves. (see Appendix C, page 30). • On the basis that three of the four NAO criteria are met and one partially met, we proposed a 'clean' unqualified VFM conclusion on this issue. Given the material deficit position of the DSG reserve, the audit team had to present our findings to the Firm's national VFM consistency Panel. The Panel considered our submission and has agreed with our proposed conclusion on this issue. • Notwithstanding the unqualified VFM conclusion on the DSG deficit reserve, the Council should continue to ensure the revised DSG plans: - continue to be closely monitored - prompt action is taken on any variations from plan, particularly in respect of any changes to the financial performance of the HNB - regular engagement with DfE is maintained along with the ESFA and the schools forum - are regularly reported to Cabinet, Audit and Scrutiny committees as appropriate, ensuring Members are kept informed of key developments on reducing the material DSG deficit. **[Rec 1 Action Plan]**	See page 22

4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are included at Appendix D.

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following non-audit services were identified.

	Fees £	Threats identified	Safeguards
Audit related:			
Certification of Housing Benefits Subsidy return	*19,000 base fee	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £19,000 base fee in comparison to the total fee for the audit of £129,288 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.
s14 Children and Young People Grant from DfE – expenditure certification	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 base fee in comparison to the total fee for the audit of £129,288 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.
DfT grant on Local Transport Plan Major Projects	4,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £4,000 base fee in comparison to the total fee for the audit of £129,288 and in particular relative to Grant Thornton UK LLP's turnover overall. These factors all mitigate the perceived self-interest threat to an acceptable level.
Non-audit related:			
None	-	-	-

NOTE:

* The £19,000 is the base fee for Housing Benefit Subsidy certification plus for each 40+ testing undertaken:

£2,200 – where the work is completed by the Council

£4,200 – where the work is undertaken by Grant Thornton

Appendix A: Action Plan

We have identified the following recommendations for the Council as a result of issues identified during the course of our audit. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2020-21 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
High	**1. DSG deficit reduction plan 2020-21 and beyond** Our work identified the Council did not achieve its deficit reduction plan set in July 2019 for 2019-20. The overall deficit target was £16.5m as at 31 March 2020 but the actual deficit was £19.9m, missing the target by £3.5m. This is a material DSG deficit. If not for new guidance from the NAO issued in September 2020, our overall VFM conclusion reached on page 22 could have been different on this material DSG deficit as at 31 March 2020. We acknowledge that this is a ring fenced specific grant and it must be used in support of the schools budget as defined in the School and Early Years Finance (England) (No 2) Regulations 2018. Accordance with current Government policy, this deficit can be carried forward to be addressed in future years and only be used for schools budget and cannot be netted off against any other general fund reserves.	• Notwithstanding the unqualified VFM conclusion on the DSG deficit reserve, the Council should continue to ensure the revised DSG plans: - continue to be closely monitored - prompt action is taken on any variations from plan, particularly in respect of any changes to the financial performance of the HNB - regular engagement with DfE is maintained along with the ESFA and the schools forum - are regularly reported to Cabinet, Audit and Scrutiny committees as appropriate, ensuring Members are kept informed of key developments on reducing the material DSG deficit. **Management response:** The Council maintains regular engagement with the ESFA and the Schools Forum with regard to DSG plans. Regular reporting is provided to Cabinet, through Financial Monitoring Reports. Audit Committee and Overview and Scrutiny Committee are also kept informed through specific reports providing updates on the DSG position and plans. This approach to engagement and reporting will continue to be maintained.
Medium	**2. Financial impact on Covid-19, budget monitoring 2020-21 and beyond:** There have been significant financial challenges as the Council responded to the Covid-19 pandemic through additional costs to support operational services and lost income through reduced activities. In the Q2 budget monitoring report for 2020-21, the Council is already estimating a net overall impact of Covid-19 for 2020-21 to be £2.3m, after government funding including loss of income compensation. The updated MTFS covering 2021-22 and 2022-2023 indicates a balanced budget for 2021-22 but the 2022-2023 plan has a gap of £7.6m. As the sector and the country recover from the Covid-19 pandemic in 2020-21, the Council's major challenges in managing its costs in demand led services are likely to remain. In common with a number of other local authorities, delivering a balanced budget and maintaining a level of adequate reserves will remain a key challenge.	We recommend the Council continues to update its budget setting and budget projections as the challenges and impact from Covid develop. Officers should continue to report in a regular and transparent manner to Members in terms of any corrective actions required in delivering the budget, the impact of Covid on costs and income, achieving the required savings and in terms of liaising with MHCLG and other government departments. The Council should consider the adequacy of its reserves going forward and the appropriate level of balances which should be linked to the approved MTFS and which should be reviewed each year. **Management response:** Regular reporting on the budget is provided through financial monitoring reports to Cabinet. These reports have clearly identified the impact of Covid on the Council's finances. An interim update of the Medium Term Financial Strategy has been submitted to November Cabinet and will be refined further once the Local Government Finance Settlement for 2021/22 is released. The Council's reserves strategy is an integral part of the overall budget and financial strategy. Development of these strategies has included strengthening the Council's level of uncommitted reserves. Subject to the anticipated balanced financial outturn being achieved for 2020/21, the General Fund Minimum Balance Reserve will be £25m at the end of March 2021, increased from a balance of just over £11m at the end of March 2018.

Appendix B: Follow up of prior year recommendations

Assessment	Issue, risk and recommendation previously communicated in 2018-19 Audit Finding Report	Update on actions taken to address the issue
Action completed	**Delivery of 2019-20 budget, savings plan and achievement of Medium Term Financial Strategy (MTFS)** Our work on the Value For Money conclusion highlighted the significant financial pressures in which the Council operates. This reflected an increasing pattern across the local authority sector. Continuing reduction in central government funding, uncertainty around the timing and detail of future funding mechanisms coupled with increasing service demands (e.g. adult social care and children's services), achievement of savings plans and MTFS is becoming increasingly challenging. During our VFM work, we identified that the Council has a good financial management and reporting system to the Council and the Cabinet. However, any non-achievement of the savings plans and MTFS would result in difficulties around sustainable resource deployment and could impact on the essential services provide by the Council to its local population. **Recommendation:** Management should continue to asses its financial performance and monitoring procedures regularly to ensure the savings plans for 2019-20 and resulting achievement of the budget and MTFS are on track. This should include continuing assessment of the demand for key services and address the funding gaps to ensure the Council continues to be financially resilient and sustainably delivering services against its key priorities	**GT comment:** Action completed. An updated recommendation on this issue has been included in the 2019-20 Action Plan at Appendix A.
On going	**Dedicated Schools Grant reserve deficit and Recovery Plan** Our work on Value For Money conclusion on page 19 highlighted there was a material deficit of DSG reserve of £15.1m as at 31 March 2019. We identified that in two year period, the DSG deficit had increased by c10m. This is a significant increase during a time where the Council is undergoing increasing pressures for its services resulting in other financial challenges. Our work indicated the Council has complied with the latest guidance available in this area and has submitted a deficit recovery plan to Education & Skills Funding Agency (ESFA). Further national guidance on dealing with DSG reserve deficits is expected to be issued in 2019-20. Should the deficit continue to increase in 2019-20 this may have implications for our 2019-20 VFM conclusion. **Recommendation:** The Council should: • Discuss the recovery plan with ESFA and agree a clear action plan on how the deficit can be recovered • Monitor the recovery plan to ensure correct actions are taken as necessary with the involvement of senior management • Continue to report the DSG deficit issues to the Cabinet to keep the members informed of actions undertaken • Continue to discuss relevant matters with the School Forum so key stakeholders are involved and kept up to date of Council's actions.	**Management comment – progress** See management response to recommendation at Appendix A, page 26 on DSG deficit reduction plan 2020-21 and beyond. **GT comment:** Action ongoing. An updated recommendation on this issue has been included in the 2019-20 Action Plan at Appendix A, page 26.

Appendix C: Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements : All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

Detail	Other Comprehensive Income and Expenditure Statement £'000	Statement of Financial Position £'000	Impact on Useable Reserves £'000
(1) Pension fund liability: Updating pension fund valuation to 31 March 2020 to reflect the updated pension fund asset return as at 31 March 2020. This results in a net increase in the pension fund liability of £7.1m.	Dr Actuarial (gains) / losses on pension assets liabilities £7.1m Cr The movement in Reserves Statement £7.1m	Cr Retirement Benefit Obligations (Long Term Liabilities) £7.1m Dr Pension Reserve (Unusable Reserves) £7.1m	- -
(2) Disclosure note 42 – Capital Expenditure and Financing (CFR) A correction was done to this CFR disclosure note amounting to £10.673m in 2018-19 to reflect MRP reprofiling on finance leases. This disclosure adjustment was already in the draft accounts submitted for audit. Our work highlighted that closing and opening CFR requirement calculations and all other related transactions based on the CFR have always being correctly calculated and included in the previous years. Therefore , this is purely a disclosure line omitted from note 42 rather than error in CFR and other related calculations. However, since this amount is material and this is an error (e.g. disclosure error), it is captured under IAS8, Accounting policies, changes in accounting estimates and errors and is considered as a prior period adjustment for this specific disclosure note, CFR. However, it has no impact to the financial performance , position and brought forward reserves for 2018-19 and 2019-20.	N/A	N/A	-
Overall impact:			**No impact**

Appendix C: Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1.	Disclosure	Updating the 'Events After the Balance Sheet Date' note in order to include the latest government funding and update on Covid-19 impact which was not included in the draft note.	Note 51, Events After the Balance Sheet Date	TBC
2.	Disclosure	Various minor amendments were made to the Narrative Report to ensure the content was consistent with the financial information and the Council's activities during year ended 31 March 2020.	Narrative Report	TBC
3.	Disclosure	Minor amendments were made to the Annual Governance Statement in line with Code Guidance requirements. Updates also made to areas of the AGS which were not completed at draft stage.	AGS	TBC
4.	Disclosure	Audit Fees to Grant Thornton regarding, accounts audit and non-audit fees in respect of Housing Benefit, Major Transport Grant and s14 Children and Young People Grant from DfE. This note was updated to reflect the accurate fees for audit and non audit related services to be in line with those disclosed in Appendix D of this report.	External Audit Costs Note 15	TBC
5.	Disclosure	Disclosure of Material Valuation Uncertainty relating to land and building valuations (including investment properties) – included under assumptions made about future and other major sources of estimation uncertainty section.	Note D, Assumptions made about future and other major sources of estimation uncertainty section	TBC
6.	Disclosure	Adding an additional note under Financial Instruments (FI) to indicate that PFI liabilities are part of FIs and its valuation method and referencing to PFI liability note of the Statement of Accounts for further information. Also making disclosure amendments to the FI notes to better reconcile with reported balances in the financial statements	Note 24, Financial Instruments	TBC
7.	Disclosure	Accounting Standards issued but not yet adopted – update this note in line with CIPFA Bulletin 5, closure of the financial statements 2019-20 with accounting standards issued with not yet adopted	Note B: Accounting Standards issued but not yet adopted	TBC

Appendix C: Audit adjustments

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
8.	Disclosure	Expanding the disclosure around PFI note to further clarify that these are captured by IFRIC 12 (service concession arrangements)	Note 44 , PFI	TBC
9.	Disclosure	Expanding the Accounting policy on Metropolitan Debt on how the Council accounts for RMBC share in the financial statements.	Accounting policies note 24	TBC
10.	Disclosure	Note 42 – linked to page 28, item 2, additional disclosures were added to explain the matter described at page 28, item 2.	Note 42	TBC
11.	Disclosure	Disclosure amendment to note 8 to capture correct classification of grant income. No changes to total income	Note 8	TBC
12.	Disclosures	Other minor disclosure amendments to improve financial reporting and transparency for the reader of the accounts.	Various	

Appendix C: Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements : All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

The following adjustments were not made on the basis of materiality. All these are above our triviality level of £450k but less than the materiality figure of £9m. Also, all these unadjusted misstatements have no impact on financial position , performance or Council's usable reserves as at 31 March 2020.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
1.	Disclosure	We have noted the DSG deficit reserve of £19,892k has been included with other reserves and netted off against other earmarked reserves to arrive at £15,022k in the draft accounts (note 37). As a Firm, we remain of the view that where overspends arise against DSG and are to be carried forward as a call against the schools' budget in future years, these should form part of the un-earmarked general fund due to its deficit.	Note 37, Usable Reserves	No . However this would not impact our audit opinion
2.	Disclosure	Our work on critical judgments applying accounting policies indicated that some of the judgements are not clearly indicating a judgement and/or are not material. • Back funding pension contribution paid during the year is not material for 2019-20 • Business rates appeal – the judgement is not very clear and it is not material for 2019-20 • Covid-19 – not clear what is the significant judgement to be included in this section of the Financial Statements We have discussed these matters with management and requested the Council enhances details of the judgement and the link to materiality. These disclosures have not impacted our overall audit approach.	Note C - Critical Judgements in applying accounting policies	No . However this would not impact our audit opinion
3.	Disclosure	Our work on assumptions made about future and other major sources of estimations uncertainty section indicated that IAS1 (presentation of financial statements) principals have not being fully applied to either describe the future material uncertainty and link to material nature of the uncertainty. These included: • PPE useful lives • MRP We have discussed these maters with the Council and requested the disclosure is enhanced to increase the compliance with IAS1. These disclosures have not impacted our overall audit approach.	Note D, Assumptions made about future and other major sources of estimations section	No . However this would not impact our audit opinion

Appendix C: Audit adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of unadjusted misstatements : All unadjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2020.

The following adjustments were not made on the basis of materiality. All these are above our triviality level of £450k but less than the materiality figure of £9m. Also, all these unadjusted misstatements have no impact on financial position , performance or Council's usable reserves as at 31 March 2020.

No.	Adjustment Type	Description and value	Account Balance	Updated in the revised accounts?
4.	Disclosure	Our work on related party transactions (RPTs) highlighted that there are some over disclosures in RPTs in Note 17. Some of the disclosures made in Note 17 did not strictly satisfy IAS 24, Related Party Disclosures criteria. In all these circumstances, the Council had over-disclosed when some of these disclosures were not required to be reported under IAS 24. We did not identify any under disclosures in relation to RPTs. Our work indicated, where the transactions are captured by IAS 24, they have been fully disclosed. We have discussed these matters with the Council and requested where IAS 24 was not satisfied those disclosure be removed.	Note 17, Related Party Transactions	No . However this does not impact our audit opinion
5	Disclosure	Our work on Surplus Assets at note 19 to the accounts highlighted there are Surplus Assets additions of £7.683m which are not Surplus Assets at the time of their addition. We have challenged the Council on the basis this is capitalised under Surplus Assets column at note 19. The reason is some of these assets could be used as Council Dwellings in the future. Therefore, these additions are assets under construction (AUC) until they are completed and should be classified under the AUC column at note 19. When the asset construction is complete, the Council decides whether the asset is surplus to requirement or not. Then, it should be appropriately classified and valued under 2019-20 LG Code guidance, depending on whether it is a Council Dwelling or a Surplus Asset. If the asset is still with the Council at the reporting date (e.g. 31 March) and if there are plans for selling the asset rather than using as Council Dwellings, the asset will be reported under non current assets held for sale category and valued accordingly. This is a disclosure issue. Our work indicated that closing balances reported under Surplus Assets category (note 19) are correctly classified and valued as Surplus Assets per 2019-20 LG Code guidance. We have discussed this matter with the Council and requested for the correct classification during the addition stage. E.g. to be included as AUC rather than Surplus assets until asset construction is complete.	Note 19, Surplus Assets column	No . However this does not impact our audit opinion and asset valuations as at 31 March 2020.

Appendix D: Fees

We confirm below our final fees charged for the audit and provision of non-audit services.

Audit fees	Proposed fee 2019-20 per Audit Plan £	Final fee 2019-20 £
Council Audit	129,288	TBC+
Total audit fees (excluding VAT)	**129,288**	**TBC+**

Over the past six months the current Covid-19 pandemic has had a significant impact on all of our lives, both at work and at home. The impact of Covid-19 on the audit of the financial statements for 2019/20 has been multifaceted. This includes:

- Revisiting planning - we have needed to revisit our planning and refresh risk assessments, materiality and testing levels. This has resulted in the identification of a significant risk at the financial statements level in respect of Covid-19 necessitating the issuing of an addendum to our original audit plan as well as additional work on areas such as going concern and disclosures in accordance with IAS1 particularly in respect to material uncertainties.
- Management's assumptions and estimates - there is increased uncertainty over many estimates including property, pension and other investment valuations. Many of these valuations are impacted by the reduction in economic activity and we are required to understand and challenge the assumptions applied by management. There are similar challenges for management and ourselves on areas such as credit loss allowances, financial guarantees, and other provisions. We have include an Emphasis of Matter in the Audit Report in respect of the material uncertainty on property values.
- Financial resilience assessment – we have been required to consider the financial resilience of audited bodies. Our experience to date indicates that Covid-19 has impacted on the financial resilience of all local government bodies. This has increased the amount of work that we need to undertake on the sustainable resource deployment element of the VFM criteria necessitating enhanced and more detailed reporting in our ISA260.
- Review and work done in respect of the DSG deficit – we have closely monitored the Council's performance regarding its DSG deficit. This has involved meetings with senior management, school finance lead, consideration of the Council's DSG recovery plan and an assessment against the NAO guidance issued in September 2020. In addition, we have held a number of internal meetings with the Firm's national VFM consistency panel.
- Remote working – a further impact in terms of delivery is the move to remote working. We, as other auditors, have experienced delays and inefficiencies as a result of remote working, including the delays in receiving accounts and extended lead time in receiving responses to audit queries. These are understandable and arise from the availability of the relevant information and/or the availability of key staff , due to your key finance staff having a number of competing demands as a result of Covid pandemic responses.

We have been discussing this issue with PSAA over the last few months and note these issues are similar to those experienced in the commercial sector and NHS. In both sectors there has been a recognition that audits will take longer with commercial audit deadlines being extended by 4 months and NHS deadline by a month. The FRC has also issued guidance to companies and auditors setting out its expectation that audit standards remain high and of additional work needed across all audits. The link attached https://www.frc.org.uk/covid-19-guidance-and-advice (see guidance for auditors) sets out the expectations of the FRC.

As a result of the above, increased costs have been incurred due to the additional time taken to deliver the audit this year. We have discussed the likelihood of an additional fee variation with the senior finance team, noting an expected variation of c15% of the above fee. We will provide a full breakdown of proposed fees on completion of our audit and this will be included in the Annual Audit Letter later this year. Please note that any proposed additional fees would be subject to approval by PSAA in line with the Terms of Appointment.

Appendix D: Fees (continued)

Non-audit fees for other services	Proposed fee £	Final fee £
Audit Related Services:		
Housing Benefit Subsidy return 2019-20	19,000*	TBC
s14 Children and Young People Grant from DfE – expenditure certification	5,000	5,000
DfT grant on Local Transport Plan Major Project	4,000	4,000
Non-Audit Related Services:		
None	-	-
Total non- audit fees (excluding VAT)	**28,000***	**TBC**

NOTE:

* The £19,000 is the base fee for Housing Benefit Subsidy certification plus for each 40+ testing undertaken:

£2,200 – where the work is completed by the Council

£4,200 – where the work is undertaken by Grant Thornton

We expect the total audit fees of £129,288 on page 31 per the Audit Plan issued in February 2020, and the £28,000 non-audit fees will reconcile to the updated note 15 in the revised accounts – we will confirm this upon receipt of the updated accounts.

Appendix E: Draft Audit Opinion (DRAFT ONLY)

We anticipate we will provide an unqualified audit report with an Emphasis of Matter paragraph, relating to the material uncertainty around the valuation of land and buildings as a direct impact of Covid-19. We also anticipate issuing a 'clean' unqualified VFM conclusion.

Independent auditor's report to the members of Rotherham Metropolitan Borough Council

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rotherham Metropolitan Borough Council (the 'Authority') for the year ended 31 March 2020 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement, Statement of Accounting Concepts and Policies, Accounting Standards Issued But Not Yet Adopted, Critical Judgements in Applying Accounting Policies, Assumptions Made About the Future And Other Major Sources of Estimations, Notes to the Core Financial Statements, the Housing Revenue Account Income and Expenditure Statement, Notes to the Housing Revenue Account, the Collection Fund and Notes to the Collection Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Authority as at 31 March 2020 and of its expenditure and income for the year then ended
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other matter – Metropolitan Debt Administration statement unaudited

The Authority has included a Metropolitan Debt Administration statement and notes to that statement in its Statement of Accounts. This statement is not required by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20 or the Local Audit and Accountability Act 2014. Accordingly, the figures in the Metropolitan Debt Administration statement and the notes to the statement are unaudited.

The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Strategic Director- Finance and Customer Services and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Authority's future operational arrangements.

Appendix E: Draft Audit Opinion (DRAFT ONLY)

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the Authority's future operational arrangements. However, no audit should be expected to predict the unknowable factors or all possible future implications for an authority associated with these particular events.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Strategic Director - Finance and Customer Services' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Strategic Director - Finance and Customer Services has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

In our evaluation of the Strategic Director - Finance and Customer Services' conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the Authority's financial statements shall be prepared on a going concern basis, we considered the risks associated with the Authority's operating activities, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit. We analysed how those risks might affect the Authority's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Authority will continue in operation.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings including investment properties

We draw attention to Accounting Policies, section D, Assumptions made about the future and other major sources of estimation of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's land and buildings including investment properties as at 31 March 2020. As, disclosed in this note, the outbreak of Covid-19 has impacted global financial markets and market activity has been impacted. A material valuation uncertainty was therefore disclosed in the Authority's property valuer's reports. Our opinion is not modified in respect of this matter.

Other information

The Strategic Director - Finance and Customer Services is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon, the Narrative Report and Annual Governance Statement. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Authority obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Appendix E: Draft Audit Opinion (DRAFT ONLY)

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Authority gained through our work in relation to the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Strategic Director – Finance and Customer Services and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Strategic Director - Finance and Customer Services. The Strategic Director - Finance and Customer Services is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019-20, for being satisfied that they give a true and fair view, and for such internal control as the Strategic Director- Finance and Customer Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Strategic Director - Finance and Customer Services is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Authority will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix E: Draft Audit Opinion **(DRAFT ONLY)**

Report on other legal and regulatory requirements - Conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

Conclusion

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, we are satisfied that the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Responsibilities of the Authority

The Authority is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

Auditor's responsibilities for the review of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in April 2020, as to whether in all significant respects the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Authority for the year ended 31 March 2020. We are satisfied that this work does not have a material effect on the financial statements or on our conclusion on the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature – To be signed

Gareth Mills, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Leeds

Date: ***TBC***