

# Sheffield City Council Audit results report

Year ended 31 March 2021

14 January 2022

Page 1

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. A yellow triangle is positioned above the 'Y', pointing downwards towards the letters.

Building a better  
working world

Agenda Item 6



Private and Confidential

14 January 2022

Sheffield City Council.  
Town Hall.  
Pinstone Street.  
Sheffield

Dear Audit & Standards Committee Members,

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Sheffield City Council for 2020/21. We have substantially completed our audit for the year ended 31 March 2021.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 03 of this report.

We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit & Standards Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

Yours faithfully

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

# Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psa.co.uk](http://www.psa.co.uk)).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure - If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.





01

# Executive Summary

# Executive Summary

## Scope update

In our audit planning report tabled at the July 2021 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

### Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Council's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

## Page 5 Status of the audit

We have substantially completed our audit of Sheffield City Council's financial statements for the year ended 31 March 2021 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- Completion of work on the PPE Valuations including queries relating to Investment Properties and work to audit updated Council Dwellings valuations;
- Consolidation and review of work being performed by our specialist Pensions team on the defined benefits pension liability;
- Completion of a small number of items from various sections of the audit work including the Housing Revenue Account, Creditors, Operating Expenditure, Expenditure and Funding Analysis and the Cash Flow Statement;
- Finalisation and update of our work in relation to going concern to as close to the date of signing our opinion as possible;
- Associate Partner review of areas of audit work;
- Completion of subsequent events review;
- Receipt and review of the updated financial statements and signed management representation letter; and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's WGA consolidation pack.



# Executive Summary

## Audit differences

Section 04 of this report sets out the audit differences arising from our audit.

We have also agreed a small number of other minor disclosure amendments with management which have no impact on the financial results reported for the year.

## Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Sheffield City Council's financial statements. This report sets out our observations and conclusions, including our views on areas where the council has exercised accounting judgements which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified in section 02 of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit and Standards Committee.

## Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit, we identified six weakness in the systems of internal control to bring to your attention in section 07.



# Executive Summary

## Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Plan, we identified significant risks concerning financial sustainability and regeneration schemes. We have included in Section 04 the detailed work we carried out in response to these risks.

Based on the work we have completed to date, we expect to issue a unqualified value for money conclusion.

We plan to issue the VFM commentary, incorporating the work carried out against the risks identified in our 2020/21 audit plan by the end of March 2022 as part of issuing the Auditor's Annual Report. This will include any observations on the financial resilience of the Council during 2021/22.

## Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission as Group Audit Instructions and the timetable for 2020/21 for WGA assurance has yet to be issued. The Group Instructions will be issued after HM Treasury have opened the 2020-21 WGA submission which will occur no earlier than the end of January 2022.

We have no other matters to report

## Independence

No independence issues have been identified.

Please refer to Section 09 for our update on Independence.



## 02 Areas of Audit Focus





# Areas of Audit Focus

## Significant risk

### Misstatements due to fraud or error

#### What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We respond to this fraud risk on every audit engagement.

We did not identify any specific fraud risks in our planning. We continued to update our risk assessment throughout our audit. We have no additional specific fraud risks to report.

#### What judgements are we focused on?

We focus on judgements and estimates that could be influenced by management decisions and bias, which particularly effect Property, Plant & Equipment, investment properties and pensions balances.

We focus on judgements made which effect the recording of transactions within the general ledger, particularly around journal entries.

#### What did we do?

- At the planning stage we identified the areas of the statements that were more susceptible to fraud, and we remained alert throughout the course of the audit for where this assessment may have changed. We did not identify any previously unidentified areas of risk.
- We inquired of management about where risks of fraud could exist and the controls that have been put in place to address those risks; considering the effectiveness of controls designed to address the risks. We also understood the oversight given by those charged with governance of management's processes in this area.
- We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements.
- We performed substantive testing of manual journals that met specific risk criteria in order to understand their purpose and appropriateness, and we reviewed and tested significant accounting estimates for evidence of management bias, including those related to pensions and asset valuation.
- We considered the existence of significant unusual transactions during the year. We did not identify any that would meet the criteria for review.
- We considered whether the results of testing relating to revenue and expenditure recognition indicated management override of controls, and we tested a sample of Property Plant and Equipment additions to confirm that the expenditure has been appropriately capitalised.

#### What are our conclusions?

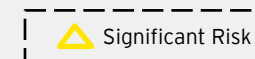
Subject to the conclusion of outstanding procedures:

- We have not identified any material weaknesses in controls or evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied.

Our testing of journals found the items in our risk based sample to be appropriately supported and entered into the general ledger.

Our testing of judgements and estimates did not identify inappropriate judgements or bias in estimates.

We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.





# Areas of Audit Focus

## Significant risk

### Risk of fraud in revenue recognition

- ▶ Accounting for Covid-19 related government grants
- ▶ Understatement of other income

#### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and grants, where management is able to apply more judgement. Specifically, our risk is focused on:

- ▶ The completeness of other income (including fees and charges, dwelling rentals, social care income and other income), where management may have understated income in the current financial year that should be accounted for in the CIES.
- ▶ The recognition and treatment of additional grants received in year for Covid-19. The Council has received a number of grants in 2020/21 as a result of the pandemic and there is a risk that the accounting treatment of these grants will not appropriately reflect the underlying terms and conditions of the grant agreement.

#### What did we do?

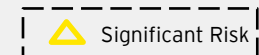
- Page 10
- ▶ Reviewed and discussed with management any accounting estimates or judgements on income recognition for evidence of bias;
  - ▶ Performed overall analytical review procedures to identify any unusual movements or trends for further investigation;
  - ▶ Used our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, specifically those that manually moved income into the next year;
  - ▶ Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing;
  - ▶ Performed a month by month trend analysis on rentals from dwellings income and a reconciliation between the dwelling rental income recognised and the rental system; and
  - ▶ Sample tested the revenue and capital Covid-19 grants received by the Council to ensure the accounting treatment and recognition applied to grant income was appropriate.

#### What are our conclusions?

Subject to the conclusion of outstanding procedures our testing has not identified any material misstatements from revenue recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.

Our discussions with management identified that the accounting for infection control grants was inconsistent with our expectations and as such management have agreed to amend to show these grants to be treated with the Authority acting as principal rather than agent. The total amendment required is £12.6m and is included in Section 04.





# Areas of Audit Focus

## Significant risk

### Risk of fraud in expenditure recognition:

- ▶ **Inappropriate capitalisation of expenditure**
- ▶ **Overstatement of expenditure**

### What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We consider that this risk is more prevalent in the following areas;

- Over the medium term we consider this is likely to occur through the capitalisation of expenditure that should be accounted for in the CIES given the extent of the Council's capital programme; and
- Overstatement of expenditure to manage the financial position year on year.

We consider this to impact on the valuation of PPE balances as well as on the occurrence/existence of expenditure/creditor balances.

### What did we do?

- Page 11
- ▶ Reviewed and discussed with management any accounting estimates on expenditure recognition for evidence of bias;
  - Used our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that moved expenditure to PPE balance sheet general ledger codes and those that captured additional expenditure during the period leading up to the balance sheet date;
  - Performed sample testing on additions to PPE to ensure that they had been correctly classified as capital and included at the correct value to identify any expenditure items that had been inappropriately capitalised;
  - Performed sample testing on key accrual balances accounted for at the year end to ensure these transactions had been captured in the correct financial year;
  - Performed overall analytical review procedures to identify any unusual movements or trends for further investigation; and
  - Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing.

### What are our conclusions?

Subject to the conclusion of outstanding procedures our testing has not identified any material misstatements from revenue and expenditure recognition.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.





# Areas of Audit Focus

## Significant risk

### Property, Plant and Equipment - Valuation of Fair Value Assets

#### What is the risk?

Property, Plant and Equipment (PPE) represent significant balances in the Council's accounts.

The Council carries out a rolling programme that ensures that all property, plant and equipment required to be measured at fair value is revalued at least every five years. valuations are carried out by the Council's own specialist valuer or an external valuer is engaged for specific types and classes of assets. Valuers must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements.

We identified a number of audit findings in our PPE valuations procedures in the prior year. In addition, as the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk that fixed assets may be under/overstated impacting on their valuation in the balance sheet.

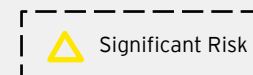
ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

#### What did we do?

- We:
- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
  - Sample tested key asset information used by the valuer in performing their valuation;
  - Considered the annual cycle of valuations to ensure that assets had been valued within a 5-year rolling programme as required by the Code. We also considered if there were any specific changes to assets that had occurred and that these were communicated to the valuer;
  - Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated and whether asset categories held at cost had been assessed for impairment and were materially correct;
  - Considered changes to useful economic lives as a result of the most recent valuation;
  - Engaged internal EY valuation specialists to review the approach of the Council valuer, considering assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year;
  - Tested accounting entries had been correctly processed in the financial statements;
  - Reviewed the classification of assets and ensured the correct valuation methodology had been applied; and
  - Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

#### What are our conclusions?

Our testing of the information sent to the valuer and the application of the valuation to the financial statements raised no issues to report.







## Areas of Audit Focus

### Other areas of audit focus

#### Property, plant and equipment - Valuation of EUV, EUV-SH and DRC assets

##### What is the risk?

Given their more formulaic nature and less reliance on market value, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC), Existing Use Valuations (EUV) and Existing Use Valuation for Social Housing (EUV-SH). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk.

We identified a number of audit findings in our PPE valuations procedures in the prior year. In addition, as the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated impacting on their valuation in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying estimates.

##### What did we do?

Page 13

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Sample tested asset valuations, utilising the support from EY valuation specialists where it is considered appropriate to do so, considering assumptions underpinning the valuation and to provide expected valuations of assets selected;
- Consider the annual cycle of valuations to ensure that assets had been valued within a 5-year rolling programme as required by the Code. We also considered if there were any specific changes to assets that occurred and that these had been communicated to the valuer;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base was not materially misstated and whether asset categories held at cost had been assessed for impairment and were materially correct;
- Tested accounting entries had been correctly processed in the financial statements; and
- Reviewed the classification of assets and ensured the correct valuation methodology had been applied.

##### What are our conclusions?

Our testing of the information sent to the valuer and the application of the valuation to the financial statements raised no issues to report.

At the commencement of the audit work in this area we identified an unusual balance which identified a formula error in the Council's workpapers. Management corrected this to enable us to be able to start our substantive testing. The total adjustment made in relation to this was £53.4m.

Subsequent to the publication of the draft financial statements, more recent data has become available in relation to the Housing Price Index (HPI) as at 31 March 2021. This fluctuates each month and therefore, in order to represent the most accurate valuation as close to the signing date, management has updated their valuation based on this index as per December 2021. This has resulted in management processing an update to the financial statements with a net decrease of £5.9m when compared with the draft statements which were compiled based on the HPI data downloaded in June 2021. This adjustment has been included in Section 04.



# Areas of Audit Focus

## Other areas of audit focus

### Investment Property valuation

#### What is the risk?

Investment property assets are valued at fair value. Whilst there is a greater estimation risk associated with these assets, and more judgement exercised by property valuers, the Council's portfolio comprises of two assets, which in total are less than our planning materiality, but are still significant at a value of £19 million. As there is still an element of judgment and estimation involved we consider there to be a higher inherent risk associated with their valuation.

#### What did we do?

Page 14

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Tested asset valuations, utilising the support from EY valuation specialists, considering assumptions underpinning the valuation and to provide expected valuations of assets selected; and
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied.

#### What are our conclusions?

Our testing of the information sent to the valuer and the application of the valuation to the financial statements raised no issues to report.

We have not identified any additional matters to bring to your attention.

Our review of the contract underlying the valuation for Small Format advertising space has identified that the valuation of the Investment Property is understated. The valuation provided by the external valuers has been provided without recognition of the provision of an amount of advertising space that remains at the use of the Council. Our internal valuation specialists have proposed a range for the judgemental misstatement as between £1.8m and £3m. This is included in our schedule of unadjusted misstatements in section 04.



# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by South Yorkshire Pension Authority. The Council's pension fund accounting deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. In the draft statements at 31 March 2021 this totalled £1,040 million (£941m at 31 March 2020). The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

The accounting entries relating to the Local Government Pension Schemes are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and assumptions underlying these estimates.

Page 15

#### What did we do?

We have:

- ▶ Liaised with the auditors of South Yorkshire Pension Authority, to obtain assurances over the information supplied to the actuary in relation to the Council and their work over the valuation of the pension fund's assets;
- ▶ Assessed the work of the Pension Fund actuary (Mercers) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- ▶ Considered the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and
- ▶ Reviewed and tested accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

During the audit, we were notified of an issue that has arisen across all local government audits in relation to the impact of the new accounting estimates auditing standard on planned procedures. Our planned approach to test this estimate was based on procedures to evaluate Management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model.

Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, in order to gain sufficient appropriate assurance through the use of our EY internal Pensions Specialists.

#### What are our conclusions?

Our work on the liabilities recognised, and the assumptions underpinning them, have raised no significant issues.

The pension fund auditor has alerted us to an unadjusted error of £9.7m in relation to the return on investment assets within the financial statements of the South Yorkshire Pension Authority. If processed this would lead to a reduction in the Council's defined benefit liability of £2.6m, representing the SCC share of the fund. We have included this in Section 04.

We have one area of work, involving our specialist internal Pensions team, outstanding.



# Areas of Audit Focus

## Other areas of audit focus

### PFI and Service Concession arrangements

#### What is the risk?

The Council has a number of PFI and service concession arrangements which include several judgements made by management resulting in the accounting treatment shown in the financial statements. The arrangements are supported by complex models to calculate the figures to be included in the financial statements each year.

Page 16

#### What did we do?

We have:

- Reviewed (with the support of EY specialists) the accounting judgements and models to ensure that we are comfortable with the judgements and related accounting treatment in the financial statements.
- For each of the material schemes we have undertaken testing of in-year inputs to the accounting models and agree relevant entries in the financial statements to year-end outputs from each of the models.
- Reviewed associated disclosures within the financial statements to confirm they meet Code requirements and are reflective of supporting documentation.

#### What are our conclusions?

No issues identified in this area.

In the current year audit we confirmed management had processed errors identified in the prior year audit. These errors totalled £2.5m and were reported in our Audit Results Report in 2019/20.





# Areas of Audit Focus

## Other areas of audit focus

Going Concern Compliance with ISA 570

### What is the risk?

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor’s report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit & Standards Committee.

The CIPFA Guidance Notes for Practitioners states ‘The concept of a going concern assumes that an authority’s functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.’

‘If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.’

Page 1

### What did we do?

To meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council’s going concern assessment and its disclosure in the accounts, we have:

- Challenged management’s identification of events or conditions impacting going concern;
- Tested management’s resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias);
- Reviewed the Council’s cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern;
- Undertaken a ‘stand back’ review to consider all of the evidence obtained, whether corroborative or contradictory;
- Challenged the disclosure made in the accounts in respect of going concern.

### What are our conclusions?

We agree with management’s assessment that the Council remains a going concern, and the disclosures appropriately present that assessment and the risks and assumptions management have considered.

The Council’s provided cash flow projections to the end of March 2023, demonstrate that the Council forecasts continued liquidity beyond the period of our assessment.

As at 31 March 2021 the Council had general and earmarked reserves of £374.5m. Over the period to 31 March 2023, the Council is planning to use an amount of reserves that is significantly higher than has been required in previous financial years to balance its budget. However, the Council has set a limit on the reserves being used and is working to identify detailed saving plans to ensure that the use of reserves remains within that limit. Reserves that are earmarked for specific purposes and needs will remain intact, leaving over £150m to maintain the financial sustainability of the Council in the medium term. Whilst there is risk in the use of reserves, and the use of reserves to maintain a balanced budget is not sustainable in the longer term, the level of reserves currently forecast through to 31 March 2023 is considered to be sufficient to ensure that the Council is a going concern.

Subject to the finalisation of our work in this area, we expect to conclude that there is no impact on our audit report.



# 03 Audit Report



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SHEFFIELD CITY COUNCIL

##### Opinion

We have audited the financial statements of Sheffield City Council for the year ended 31 March 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 1 to 45,
- Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 13,
- Collection Fund and the related notes 1 to 2.

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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Sheffield City Council as at 31 March 2021 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

##### 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 below. 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 the Comptroller and Auditor General's (C&AG) AGNO1, 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.

##### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Executive Director of Resources' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Resources with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### 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 Executive Director of Resources is responsible for the other information contained within the Statement of Accounts.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

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 obtained in the course of 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 themselves. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

#### Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

- ▶ 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;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects.

#### Responsibility of the Executive Director of Resources

As explained more fully in the Statement of the Executive Director of Resources Responsibilities set out on page 19, the Executive Director of Resources 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine 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 Executive Director of Resources 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 the Authority either intends to cease operations, or have no realistic alternative but to do so.

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





# Audit Report

## Draft audit report

### Our opinion on the financial statements

effectiveness of these arrangements.

#### Auditors 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- ▶ We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
  - o Local Government Act 1972,
  - o School Standards and Framework Act 1998,
  - o Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
  - o Education Act 2002 and school Standards and Framework Act 1998 (England),

- o Local Government Act 2003,
- o Housing Act 1985,
- o The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- o National Health Service Act 2006,
- o The Local Audit and Accountability Act 2014, and
- o The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

- ▶ We understood how Sheffield City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the Head of Internal Audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the council's committee minutes, through enquiry of employees to confirm council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.
- ▶ We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of reported financial performance (through improper recognition of revenue and expenditure) and inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

- ▶ To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we obtained the council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.
- ▶ To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.
- ▶ To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately.

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

### Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Sheffield City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Sheffield City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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 form a view on whether, in all significant respects, Sheffield City Council had

put in place proper arrangements to secure 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 satisfy ourselves 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.

### Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have completed our procedures on the Authority's value for money arrangements for the year ended 31 March 2021. We are satisfied that this work does not have a material effect on the financial statements. We will report the outcome of our work on the Authority's arrangements in our commentary on those arrangements within the Auditor's Annual Report. Our audit completion certificate will set out any matters which we are required to report by exception.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.



# Audit Report

## Draft audit report

### Our opinion on the financial statements

#### Use of our report

This report is made solely to the members of Sheffield City Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Sheffield City Council and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Page 23

Janet Dawson (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
London  
January 2022



# 04 Audit Differences







## Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

### Summary of adjusted differences

We identified Covid Grants totalling £12.6m that management had removed from the CIES due to the understanding that they should be treated as an arrangement whereby the Council acted as an agent. Our discussions led to this understanding changing and as a result, both income and expenditure of £12.6m has been included in the CIES to reflect the substance of the arrangements.

Following discussions held in previous years, management perform an update to the valuation of Council Dwellings as the Housing Price Index is updated. For the valuation at the balance sheet date, this had led to a decrease in the valuation of £5.9m.

Due to a formula error in a spreadsheet, the draft statements included an overstatement of the gain on revaluation on PPE. The required adjustment related to this totalled £53.4m. The opposite entry was a reduction in the (Surplus) / deficit on revaluation of non-current assets within the CIES.




We have also noted misstatements of a disclosure nature that management have amended; these impact Note 7 - Expenditure and Income Analysed by Nature, Exit Packages, related party transactions and the Expenditure Funding Analysis.

### Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that the uncorrected misstatements in the table on the next page be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Standards Committee and provided within the Letter of Representation:



# Audit Differences

Uncorrected misstatements 31 March 2020 (£000) 	 Effect on the current period:	 Balance Sheet (Decrease)/Increase			
Errors	Comprehensive income & expenditure statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
<b>Factual differences:</b>					
Cut-off errors identified where the Council account for 12 monthly payments in one year (as also reported in the previous year)	£3,025,205	(£3,025,205)			
<b>Judgemental differences:</b>					
Unadjusted difference of the Council's share of an error identified in the SYPA financial statements for the return on investment assets	(£2,605,420)			£2,605,420	
Midpoint of the range proposed by EY Internal specialist for understated valuation of investment property	(£2,400,000)		£2,400,000		
<b>Balance sheet totals</b>		<b>(£3,025,205)</b>	<b>£2,400,000</b>	<b>£2,605,420</b>	
Income effect of uncorrected misstatements before turnaround	(£1,980,215)				
Turnaround effect. (See Note 1 below)	(£9,898,610)				
<b>Cumulative effect of uncorrected misstatements, after turnaround effect</b>	<b>(£11,878,825)</b>				

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.





05

## Value for Money Risks



# Value for money

## The Authority's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

## Risk assessment

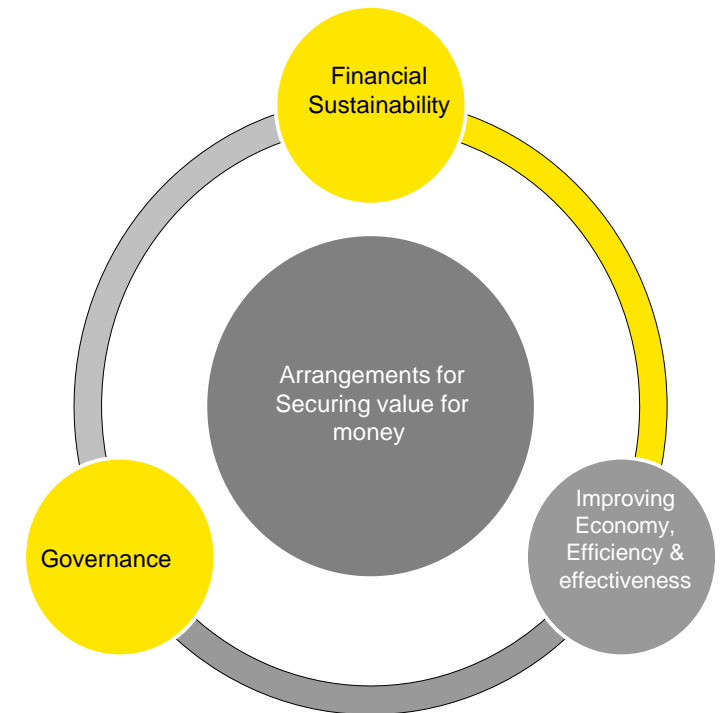
We identified two significant risks related to the Council's arrangements. The tables below present our findings in response to the risks in our Audit Planning Report

Page 28

## Status of our VFM work

We have now completed our VFM risk assessment and we have not identified a significant weakness. Subject to review process and concluding our work, we anticipate we will have no matters to report by exception.

Under the Code of Audit Practice 2020 we are required to issue our commentary on the Council's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit and we anticipate doing so by the end of March 2022.





## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

### What is the significant value for money risk?

### What arrangements did the risk effect?

### What are our findings?

#### Financial Sustainability

The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services.

Whilst the Council does generally have a good track record of delivering financial performance the council has significant budgetary pressures in the medium term. The Council continues to face significant financial challenges in relation to the adult social care and children's services driven by historic overspends and difficulties in achieving recurrent savings due to increasing demand for services. In addition to this, the Council is now experiencing a significant demand for financial support to maintain leisure services within the city.

The forecast use of reserves and overall budget gap in the medium term is not sustainable and as indicated by the Council in their reporting of the MTFS, ensuring the ongoing viability will have to involve the prioritisation of resources, identification of additional savings, demand management controls and the effective and prudent utilisation of the Council’s reserves.

#### Financial sustainability

Our work focused on:

- Considering current financial standing and the availability of reserves to fund future expenditure.
- Considering the 2020/21 outturn performance and impact on the current MTFS.
- Considering the appropriateness of key assumptions used by the Council in setting the budget and Medium Term Financial Strategy.

On the basis of the work we concluded that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people during 2020/21.

We will provide additional commentary on this area as part of our Auditor’s Annual Report.



## Value for Money Risks

**What is the significant value for money risk?**

**What arrangements did the risk effect?**

**What are our findings?**

**Regeneration Schemes**

Governance

Our work focused on:

The Council continues to invest significantly in the regeneration of the city. This has included the underwriting of a 40 year lease at West Bar and the ongoing Heart of the City redevelopment.

- Reviewing the decision making process for the approval of investment in West Bar.
- Reviewing whether the risks associated with regeneration schemes are appropriately being reflected on the risk register and mitigating actions are being taken.

With national declines in the value of office and retail space, it is important that the Council has appropriately assessed the risks to their regeneration plans both prior to approving them, and then throughout, to ensure that they remain fit for purpose and emerging risks are being identified and mitigated

On the basis of the work we concluded that the Council had proper arrangements in place to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people during 2020/21.

We will provide additional commentary on this area as part of our Auditor's Annual Report.





## 06 Other reporting issues

## Other reporting issues

### Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts for the year ended 31 March 2021 with the audited financial statements

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the narrative report of the Statement of Accounts for the year ended 31 March 2021 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

### Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission as Group Audit Instructions and the timetable for 2020/21 for WGA assurance has yet to be issued. The Group Instructions will be issued after HM Treasury have opened the 2020-21 WGA submission which will occur no earlier than the end of January 2022.



# Other reporting issues

### Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. “a report in the public interest”). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Council, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council’s financial reporting process. They include the following:

- Page 33
- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
  - Any significant difficulties encountered during the audit;
  - Any significant matters arising from the audit that were discussed with management;
  - Written representations we have requested;
  - Expected modifications to the audit report;
  - Any other matters significant to overseeing the financial reporting process;
  - Findings and issues around the opening balance on initial audits (if applicable);
  - Related parties;
  - External confirmations;
  - Going concern; and
  - Consideration of laws and regulations.

There are no matters to report to you in respect of the above areas other than as included in the body of the report.



07

## Assessment of Control Environment

# Assessment of Control Environment

## Financial controls

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit (including IT controls). At the completion of the audit we will issue our Annual Auditors Report containing all of the identified points.

	High	Moderate	Low	Total
Number of open observations at the start of the audit	-	7	2	9
Observations noted in 2020/21	-	4	2	6
Issues closed in 2020/21 **	-	0	0	0
Number of open observations at the conclusion of the audit	-	11	4	15

\*\* our prior year (2019/20) findings were reported subsequent the end of the 2020/21 financial year, therefore management had no realistic timescale to take action on the recommendations in time for us to report in 2020/21.

We will perform a review of progress against all of these and the current year findings in our Audit Planning Report for the 2021/22 audit.

### Key:



A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.



Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.



Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.



# Assessment of Control Environment

Area	Rating	Area	Rating
<p data-bbox="100 678 280 861">Page 36 Observation</p> <p data-bbox="358 467 1093 587">We sampled an item in debtors existence of value 572k. On further inspection SCC had been debiting this account code with pay advances, but credited the receipts to a different code.</p> <p data-bbox="358 628 1093 783">The two codes net off within the statement of accounts but in reality only 77k was actually outstanding. This approach leads to additional administrative burden to compare the two codes each year and also produces artificially high balances from which we identify our samples.</p> <p data-bbox="358 820 1093 911">SCC have agreed to undertake a consolidation exercise to transfer the credits to the correct code, reducing the balance on each code.</p>		<p data-bbox="1391 467 2141 560">The Authority does not yet have a robust system in place to ensure they capture trigger events which would require them to assess lease liabilities.</p> <p data-bbox="1391 596 2141 879">Based on discussions, we note that the Authority will not be in a position to implement a software solution or "system" by 1 April 2022 to account for leases which would automatically flag such changes as they occur, however, there will be reliance on the Property Services department to notify Finance of any such triggers that may be present. The Property Services department will be assisting the finance team in reviewing their leases each year. At current, this is the process the Council will follow in this regard.</p>	
<p data-bbox="100 1134 280 1193">Management comment</p> <p data-bbox="358 1078 1093 1233">The audit identified that debit and credit balances for pay advances were being posted to separate codes, which then required regular reconciliation. To simplify our processes, we will work with Payroll to reconcile the related transactions and transfer the credits to the correct code.</p>		<p data-bbox="1155 1134 1335 1193">Management comment</p> <p data-bbox="1391 1007 2141 1321">IFRS 16 covering lease accounting is a new requirement for 1 April 22 onwards (2022/23 accounts). We will work with Property Services to use our best endeavours to comply materially with its requirements. As electronic systems become available nationally, we will review whether they provide a more reliable and cost-effective approach than our current one, and implement if they do. Even with a system, there will continue to be a need to manually record lease amendments and so we are in the process of establishing procedures across teams to capture this.</p>	

# Assessment of Control Environment

Area	Investment Properties	Rating	■
------	-----------------------	--------	---

Area	Members Interests	Rating	■
------	-------------------	--------	---

Page 37 Observation	Discussions held between management and the EY internal specialists in relation to small format advertising space, it became clear that the Council retains the right to use up to £0.5m of space per annum, The valuation of the associated asset capitalised in recognition of the advertising space does not take into account the space available for Council use. We have concluded that the asset is not materially misstated, but have included a range by which the asset may be understated in Section 04 of this report.
	Management should ensure that the 2021/22 valuation for this advertising space includes all of the space that is retained by the Council as per the contractual arrangement.

Observation	Our work identified transactions with two previously undisclosed related parties. These related parties were not disclosed by members on their annual declarations.
	Management should introduce checks to be performed to ensure that members declarations are complete.

Management comment	As at the 31st March 2021, we remain confident that the valuation of the investment property is accurate.
	We will review the operational element in 2021/22 and look to provide a valuation as at 31st March 2022 as appropriate. We will seek early liaison with audit in advance of year end to obtain agreement on the valuation method to be used.

Management comment	We will liaise with Legal and Democratic Services and Members to see where declaration processes can be improved and how checks can be put in place to provide assurance.
--------------------	---

# Assessment of Control Environment

Area	Financial Statements Closedown Process - Quality Assurance	Rating	Area	Leases	Rating
Observation Page 38	<p>In disclosure note 7 we noted t adjustments with no impact on the primary financial statements that were significant in their value. Although we have not listed these in the schedule of corrected misstatements, as they are of a disclosure nature only, management should ensure that the process of compiling the financial statements includes controls to reduce the likelihood of material misstatements of a disclosure nature also.</p>		Observation	<p>In our substantive testing of leasing arrangements the council was unable to provide us with the original copy of one lease with a commencement date in 1934, assumed lost. Clearly this cannot be rectified, but it should be emphasised that leasing document should be retained for all new leases.</p>	
Management comment	<p>A small number of disclosure errors in notes to the accounts were picked up by our review processes, some of which were found soon after publishing the draft accounts. These were raised with our external auditors and corrected. The timetable for closing the accounts and publication can be challenging, so we welcome this recommendation to highlight the importance of protecting the review and proof-reading elements of the accounts closure timetable.</p>		Management comment	<p>We accept the audit finding that the evidence required by audit was not available for one historic lease sampled. The implementation of IFRS 16 is highlighting the importance of maintaining comprehensive leasing information and we are working with Property Services to improve the completeness of our documentation.</p>	





# 08 Data Analytics





## Data analytics

### Analytics Driven Audit

#### Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- ▶ Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21, our use of these analysers in the authority's audit included testing income recognition, journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

#### Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year across payroll codes. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

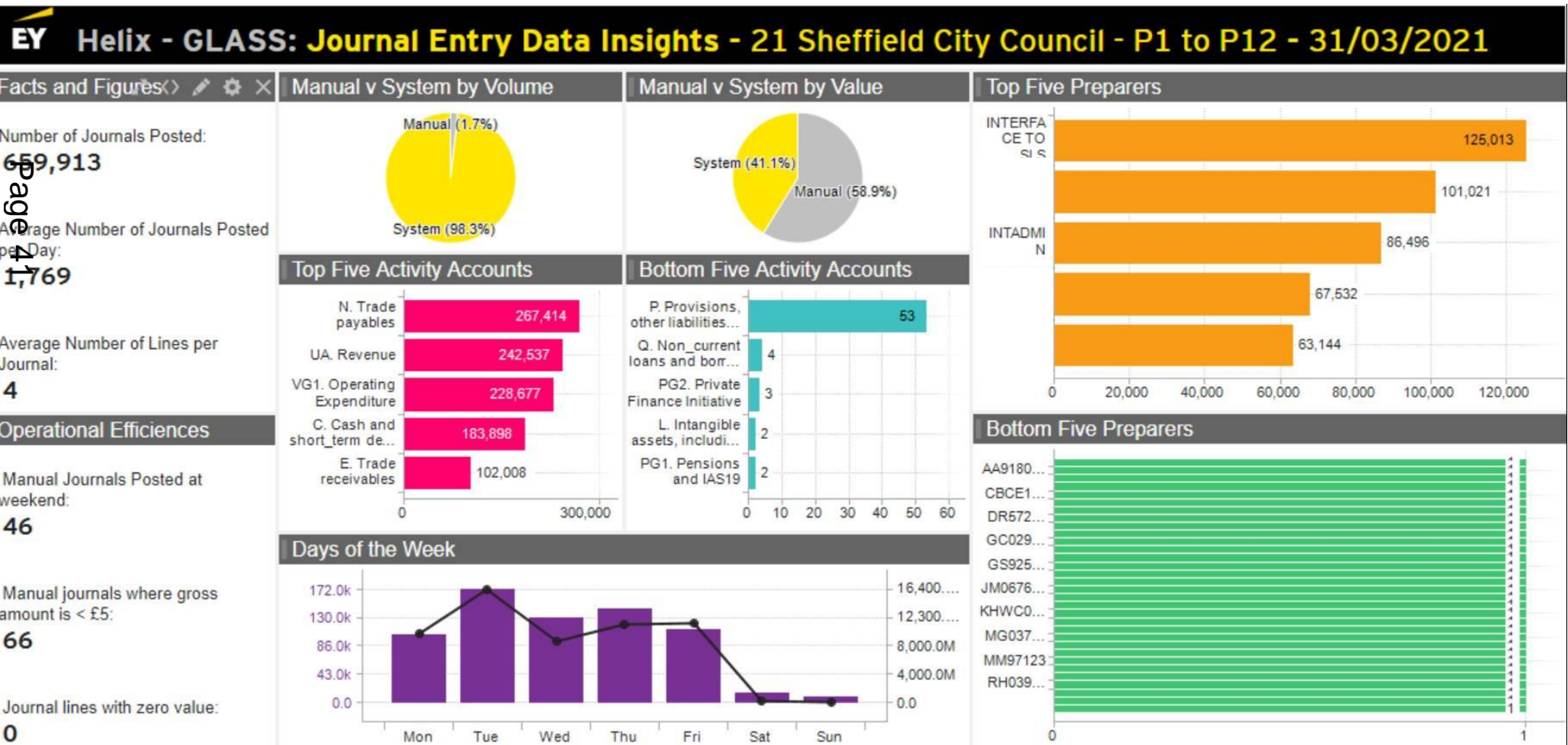


# Data Analytics

## Journal Entry Data Insights

The graphic outlined below summarises the journal population for the year. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.





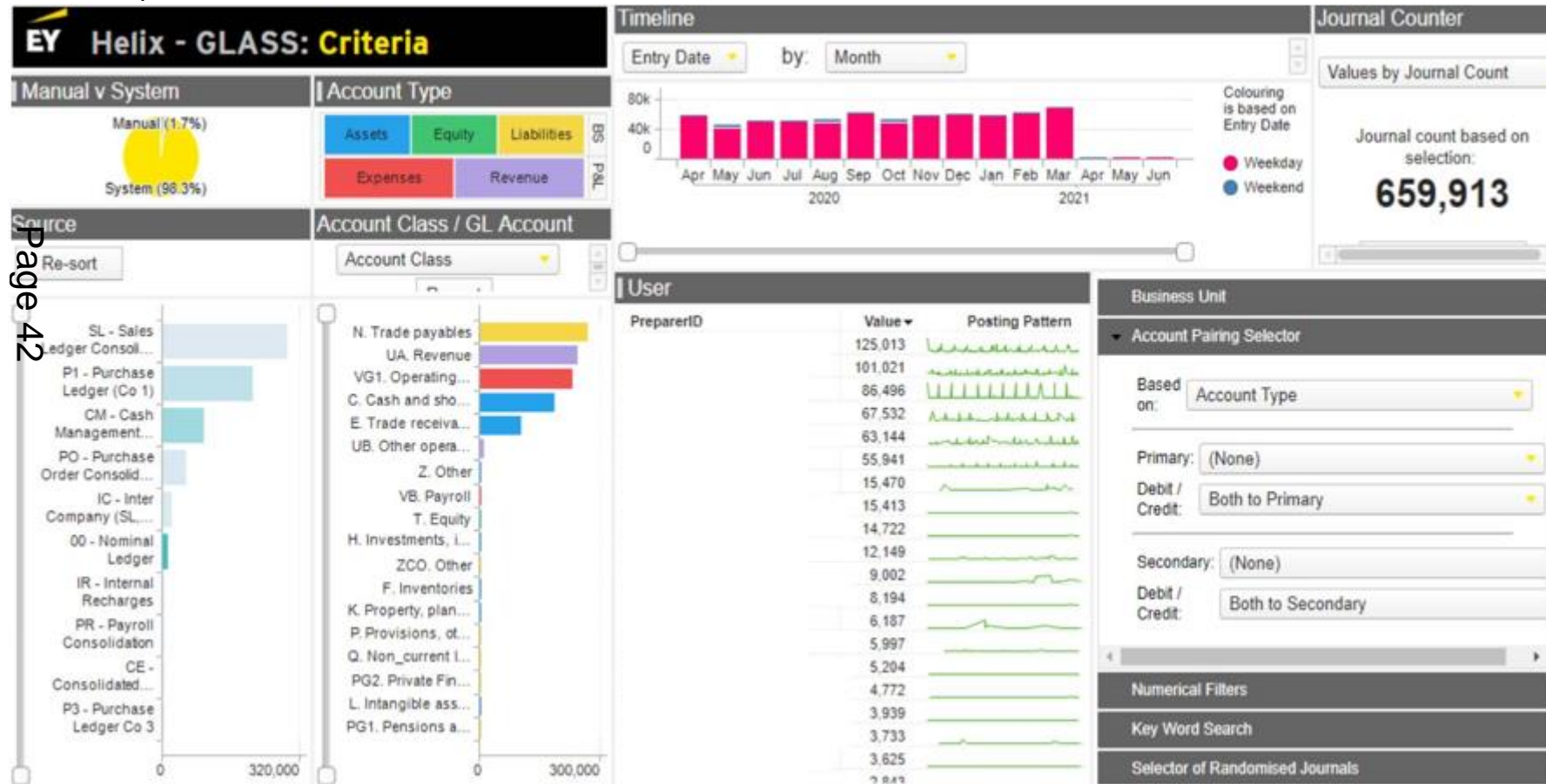
## What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

## What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2021



## What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

## What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.





09

# Independence

## Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report presented in July 2021.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Standards Committee in January 2022.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on the certification of the Authority's Housing Benefits return. We have adopted the necessary safeguards in our completion of this work



# Independence



## Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

### Services provided by Ernst & Young

The following page includes a summary of the fees that you have paid to us in the year ended 31 March 2021 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services have been provided on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted, other than the continuation of services relating to Housing Benefit subsidy certification and teachers pension certification.

## Confirmation and analysis of Audit fees

As part of our reporting on our independence, we set out a summary of the fees you have paid us in the year ended 31 March 2021.

	Fee 2020/21 £	Final Fee 2019/20 £
Scale fee	143,988	143,988
Additional fees: (Note 2)	TBC	121,517
<b>Total audit</b>	<b>TBC</b>	<b>265,505</b>
Non-audit services : - Housing Benefits	35,500*	35,500
<b>Total non-audit services</b>	<b>TBC</b>	<b>35,500</b>
<b>Total fees</b>	<b>TBC</b>	<b>265,505</b>

All fees exclude VAT

\* Indicative

As highlighted in the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Council should more realistically set at a level that reflects the complexity and risk profile of the Council, and the resulting hours required to delivery the audit. The scale fee is set by PSAA Limited.

We wrote to management and the Audit & Standards Committee Chair setting out our considerations on the sustainability of UK local public audit. A base fee of £143,988 was prescribed by PSAA for the 20/21 audit but as set out in our discussions with management and the Audit and Standards Committee for, the scale fees are impacted by a range of factors which result in additional work. We are still in the process of agreeing the 2020/21 fees with management and will provide an update once this process has been finalised. We expect fee levels to be broadly consistent with those for 2019/20 for the financial statements work. The change in requirements of the Code in relation to VFM arrangements will also result in a fee variation. The fees will also be subject to approval by the PSAA.



**10**

**Appendices**

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.





Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded

Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework






## Appendix A

Balance sheet category 	Audit Approach in current year 	Audit Approach in prior year 	Explanation for change 
Property, Plant and Equipment including Assets Held for Sale	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Heritage Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investment Properties	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Intangible Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Cash and Cash Equivalents	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Retirement Pension Liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Debtors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Creditors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Borrowing (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A - consistent approach as the prior year in all areas.
Provisions (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
PFI / PPP Finance Lease Liability (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Capital Grants Receipts in Advance (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Usable and Unusable Reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investments (short and long term)	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	
Inventories			

## Appendix B

# Summary of communications




Date 	Nature 	Summary 
22 April 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
10 June 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
14 June 2021	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
27 July 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
29 July 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
7 September 2021	Meeting	Senior members of the audit team held progress update with Senior members of management
21 September 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
23 September 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
27 September 2021	Meeting	Senior members of the audit team held progress update with Senior members of management
4 October 2021	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
21 October 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
14 December 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
10 January 2022	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management

In addition to the above specific meetings and letters the audit team met with the financial closedown team on a weekly basis throughout the audit to discuss audit progress and findings.

## Appendix C

# Required communications with the Audit and Standards Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
<b>Required communications</b>	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit and Standards Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report July 2021
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report July 2021
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit results report January 2022
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit results report January 2022
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit results report January 2022

# Appendix C




		Our Reporting to you
Required communications	What is reported?	When and where
Subsequent events	<ul style="list-style-type: none"> <li>▶ Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might effect the financial statements.</li> </ul>	Audit results report January 2022
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud effecting the Authority</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>▶ Any other matters related to fraud, relevant to Audit and Standards Committee responsibility.</li> </ul>	Audit results report January 2022
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit results report January 2022



# Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report July 2021 and Audit results report January 2022</p>
Internal confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	<p>Audit results report January 2022</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur</li> <li>▶ Enquiry of the Audit and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of</li> </ul>	<p>Audit results report January 2022</p>
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit.</li> </ul>	<p>Audit results report January 2022</p>

## Appendix C

		Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>▶ Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit results report January 2022
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit results report January 2022
Auditors report	<ul style="list-style-type: none"> <li>▶ Any circumstances identified that effect the form and content of our auditor's report</li> </ul>	Audit results report January 2022
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit planning report is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Planning Report July 2021 Audit results report January 2022
Certification work	<ul style="list-style-type: none"> <li>▶ Summary of certification work</li> </ul>	Certification Report (separate report upon completion of certification work)

# Draft management representation letter

## Management Rep Letter

[To be prepared on the entity's letterhead]  
20 January 2021

Ernst & Young  
1 More London Place,  
SE1 2AF

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements of Sheffield City Council ("the Council") for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Sheffield City Council as of 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

### A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the (consolidated) financial statements taken as a whole.

### B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that

# Management representation letter

## Management Rep Letter

the financial statements may be materially misstated as a result of fraud.

4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:
  - ▶ involving financial statements;
  - ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
  - ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
  - ▶ involving management, or employees who have significant roles in internal controls, or others; or
  - ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

### C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
  - ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - ▶ Additional information that you have requested from us for the purpose of the audit; and
  - ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements.

3. We have made available to you all minutes of the meetings of the Council and committees held through the period to the most recent meeting.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statement
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21
6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.



# Management representation letter

## Management Rep Letter

### D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Notes 20 - 22 to the financial statements all guarantees that we have given to third parties.

### E. Going Concern

1. The notes to the Core Financial Statements disclose all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

### F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

### G. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the content of the Statement of Accounts other than the financial statements and your audit opinion thereon.
2. We confirm that the content contained within the other information is consistent with the financial statements

### H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### I. Use of the Work of a Specialist - Pension Assets and Liabilities

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of pension assets and liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

### J. Valuation of Pension Assets and Liabilities

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We confirm that the significant assumptions used in making the valuation of the pension assets and liabilities appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

# Management representation letter

## Management Rep Letter

### K. Valuation of NNDR appeals provision

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
2. We confirm that the significant assumptions used in making the NNDR appeals provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate is complete, including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

### L. Major Sporting Facility

1. We confirm that we do not exert control over Sheffield City Trust and that it is correct that the results of that entity are not consolidated into the Sheffield City Council financial statements.
2. We confirm that we do not have the ability to control the assets in use by Sheffield City Trust, being Ponds Forge, Sheffield Arena and Hillsborough Leisure Centre (also known as the Major Sporting Facilities), and in particular the pricing structure, which is determined by Sheffield City Trust. As such, we confirm the assets do not meet the definition of a service concession

Yours faithfully,

\_\_\_\_\_  
Eugene Walker  
(Executive Director of Resources / Section 151 Officer)

Date:

\_\_\_\_\_  
Councillor Sioned-Mair Richards  
(Chair of the Audit & Standards Committee)

Date:

**About EY**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

© 2017 EYGM Limited.  
All Rights Reserved.

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

This page is intentionally left blank