

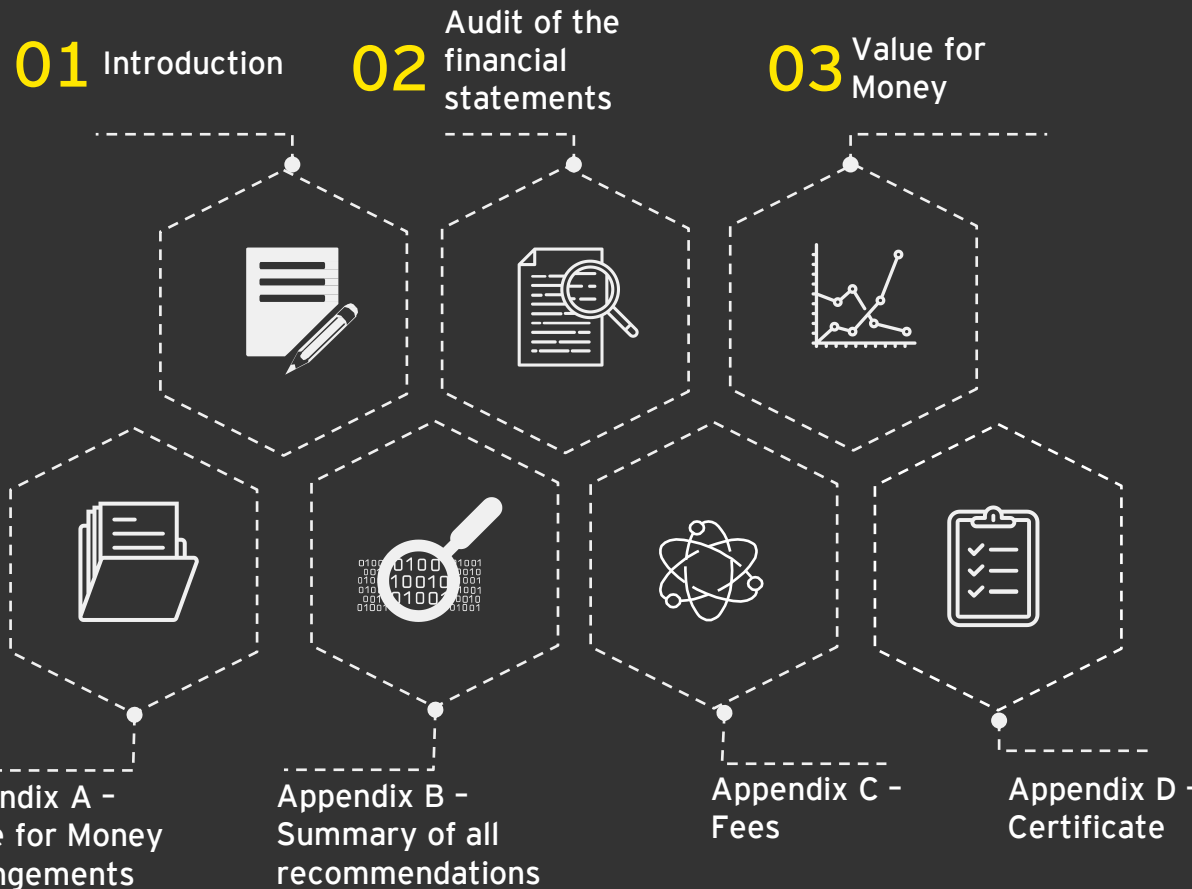
Sheffield City Council Auditor's Annual Report

Year ended 31 March 2022

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Agenda Item 9

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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated July 2021)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Sheffield City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to Audit Committee and management of Sheffield City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than Audit Committee and management of Sheffield City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



Introduction

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on to the Audit and Standards Committee for the meeting on 22 September 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



Introduction (continued)

2012/22 Conclusions

Financial statements	<p>Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended.</p> <p>The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).</p> <p>We issued our auditor's report on 27 March 2024.</p>
Going concern	<p>We have concluded that the Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.</p>
Consistency of the other information published with the financial statement	<p>Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.</p>
Value for money (VFM)	<p>We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.</p>
Consistency of the annual governance statement	<p>We were satisfied that the annual governance statement was consistent with our understanding of the Council.</p>
Public interest report and other auditor powers	<p>We had no reason to use our auditor powers.</p>
Whole of government accounts	<p>The Group Audit Instructions we released by the NAO in February 2023. These instructions confirmed that Sheffield City Council falls under the HMT Audit Threshold of £2bn. Due to the timing of the audit, the NAO as group auditor has now confirmed that no further assurances will be required from us as component auditors of Sheffield City Council.</p>
Certificate	<p>We will issue our certification on 18 April 2024, at the same time as this report. Please see appendix D for the certificate.</p>



Audit of the financial statements

Key findings

The Narrative Statement and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We reported our detailed findings to the Audit and Standards Committee on 9 March 2023 and 21 September 2023, with our final report issued on 27 March 2024,, where we issued an unqualified opinion on the financial statements. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We observed 16 internal control weaknesses, including 2 that we judged to be “high risk” in the Audit Results Report; one in relation to PPE valuations and one in relation to related parties disclosures.

There were two instances of corrected misstatements in the year above our tolerable error, which weren’t due to any of the significant risks listed below, these are:

- A £19.5 million decrease in the valuation of PPE (Council Dwellings) as a result of the HPI movement between March 2022 and March 2023.
- A £46.6 million decrease in the value of the defined benefit pension liability in relation to the release of the 2022 LGPS Triennial Revaluation

Significant risk

Conclusion

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Misstatements due to fraud or error

- ▶ **Management override of controls**

We did not identify any material weaknesses in controls or evidence of management override.

We did not identify 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.

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

Our testing of judgements and estimates did not identify inappropriate judgements or bias in estimates. However, we did identify misstatements during our testing of judgments and estimates, with the most significant being related to the valuation of property, plant and equipment (excluding infrastructure assets) (net corrected misstatements of £19.5m and net uncorrected misstatements of £4m) and the valuation of the net pension liability (net corrected misstatements of £46.6m and net uncorrected misstatements of £12.4m). No other significant misstatements were identified, although we noted one uncorrected misstatement in the NDR bad debt provision for £1.9m.

Risk of fraud in revenue and expenditure recognition

- ▶ **Inappropriate capitalisation of expenditure**
- ▶ **Understatement of other operating expenditure**
- ▶ **Overstatement of income - dwelling rents, fees & charges, other income and grant income (including Covid-19)**

We identified four errors totalling £5.3 million. These had no net impact on the overall reported position as they related to the incorrect grossing up of the balances within the Comprehensive Income and Expenditure Statement (CIES) and has not been adjusted by the management.

We also identified errors during our unrecorded liabilities testing, resulting in an uncorrected understatement of expenditure of £2.9 million.

There is no indication that these errors were as a result of fraud or deliberate misreporting.

Our audit work did not identify any material issues or unusual transactions to indicate any deliberate misreporting of the Council’s financial position.



Audit of the financial statements

Significant risk

Conclusion

The draft financial statements included an infrastructure balance of £774 million (net book value (NBV)), comprising of £1,162 million of cost and £388 million of depreciation. Therefore, the figures were material to the financial statements.

Management completed a significant amount of work prior to the CIPFA bulletin being released. Management scrutinised records for all assets classified as highways infrastructure to understand the records supporting the balances and acknowledged a portion where the underlying asset could not be readily identified or the Council could not state with sufficient certainty that the asset had not subsequently been replaced. This resulted in a corrected misstatement of £138.7m.

Management identified three distinct groupings for which infrastructure assets were classified:

1. Assets purchased or procured/assembled under the PFI contract or via other routes directly by the Council.
2. Assets where the Council had reasonable assurance that the Assets have since been replaced, most notably by the PFI contract works.
3. Historical information deficits and custom and practice meant that producing information required to evidence the derecognition of replaced components of infrastructure assets was not practicable. Assets held on the FAR at a NBV of £115 million fell into this categorisation. Management committed to continue to investigate old records to establish if they can be placed in either group 1 or 2 at a later date. These balances, in line with the Statutory Instrument, were carried forward at Net Book Value.

Management provided a new disclosure note and briefing paper. We provided challenge to the disclosures made and also consulted internally on the conclusions that we made.

We made a recommendation regarding controls in this area relating to how management monitor spend going forward to keep updated records in respect of when assets are replaced. This includes working with the PFI contractor to establish the appropriate depreciation rate to charge for each sub-classification of assets. Currently, the Council depreciate all assets obtained under the contract over 40 years, which is in line with the PFI contractual provisions, however this will require further consideration in light of guidance issued by CIPFA. For 2021/22 we concluded there was no material issue.

We also identified some assets held where it was difficult to substantiate existence in line with the original provisions of the Code and thus required the implementation of the Statutory Instrument. We made a recommendation for management to assess how such assets may be classified when the temporary provisions end. Our testing identified £4.7 million written off that management could not support which was included as an uncorrected misstatement.

Property, Plant and Equipment -
Valuation of Infrastructure Assets

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Audit of the financial statements

Significant risk	Conclusion
<p>Property, Plant and Equipment -</p> <ul style="list-style-type: none">Valuation of Fair Value Assets	<p>Due to the level of risk attached to this area, we engaged our internal EY Real Estates (EYRE) valuation specialists to perform parts of our testing. Due to the judgemental nature of these, management have not made any adjustments to the financial statements.</p> <p>Our work identified a judgemental overstatement relating to the valuation of car parks totalling £5.66m. The issue related to the yield (6.25%) used by the Council's valuations team being too strong for a valuation predicated on trading profit. We would have expected a yield in the region of 11% to 12% for Council run/managed car parks. We concluded that one property, valued based on a conditional offer price, was overstated by between 10% and 20% as appropriate deductions were not made to reflect the uncertainty associated with the offer.</p> <p>We concluded that the valuation approach for council owned nursery buildings is unconventional and should be revisited to be in line with more traditional methodology.</p> <p>We also noted other input errors totalling £585k.</p> <p>We made a number of recommendations in the Audit Results Report in relation to this, including one of the high risk recommendations.</p>

We identified 3 risks of significant weakness in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03).

We presented our VFM risk assessment to the 22 September 2022 Audit Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, correspondence with management and evaluation of associated documentation through our regular engagement with Council management and the finance team. We reported that we had identified risks of significant weakness in the Council's VFM arrangements concerning Financial sustainability, regeneration programmes (specifically Heart of the City II and West Bar) and reconfiguration of leisure facilities.

Reporting

We identified the significant risks outlined in the table overleaf as part of our risk assessment procedures. We set out our planned response in our Audit Plan. Following the completion of our procedures on the identified risks of significant weaknesses we did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 9 to 16. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria.

These were reported in our 2020/21 Annual Auditors Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses identified?
<p>Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services</p>	<p>Significant Risk 1: The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services.</p> <p>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. In addition to this, the Council is experiencing a significant demand for financial support to maintain leisure services within the city.</p> <p>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.</p>	<p>No significant weaknesses identified</p>
<p>Governance: How the Council ensures that it makes informed decisions and properly manages its risks</p>	<p>Significant Risk 2 - Regeneration Programmes: 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. 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.</p> <p>Significant Risk 3 - Reconfiguration of Leisure Facilities: As of August 2024 the City's leisure facilities (Major Sporting Facilities) that have been managed by the Sheffield City Trust since 1988, return to the stewardship of the Council. The Council will inherit aging assets that are in need of repair and by modern standards are less attractive than equivalent facilities in other major cities. They will also increase the operating expenditure of the Council, with increases in the cost of heating and electricity expected in the short-term.</p>	<p>No significant weaknesses identified</p>
<p>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</p>	<p>No significant risks identified</p>	<p>No significant weaknesses identified</p>



Value for Money (continued)

Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

After carrying out our planned procedures, we concluded that there was adequate evidence that the Council adhered to its governance processes for setting a balanced budget and Medium Term Financial Analysis (MTFA) in 2021/22. We noted that the budget was underpinned by reasonable assumptions, although subsequent monitoring mechanisms undertaken brought to light an overspend that the Council took a proactive approach to managing deviations from the approved budget.

The impact and changes caused by Covid-19 were still prevalent for 2021/22, specifically related to changes in social care. There was a budgeted saving for this portfolio but demand for in-home care services resulted in a overspend by the end of the financial year. This was slightly mitigated by a one-off grant received in-year.

If the growth in Social Care spend increases and with uncertainties concerning government funding, without alternative income sources to augment budgets in the future, there will continue to be a strain on the financial sustainability of the Council in the medium term. As a greater percentage of reserves have already been earmarked this will leave less in reserves for the Council to draw on. Whilst we did not identify any significant weaknesses impacting the 21/22 VfM Conclusion, this area needs to be continuously reviewed as it may have an impact in the future.

When conducting the VfM procedures on financial sustainability, we focused on three areas:

Did management follow the established governance processes when setting the 21/22 Budget and Medium Term Financial Analysis (MTFA)?

As part of the Council's budget setting process, each service is required to develop a Business Implementation Plan (BIP). These BIPs detail the Council's spending for the year ahead per portfolio showing the activities to be undertaken, anticipated pressures and savings to be delivered. The BIPs are quantified, consolidated and make up the Council's Revenue Budget for the respective year. The Revenue Budget, once completed, prompts the update to the MTFA.

The Constitution on SCC's website states that the budget should be approved by Full Council each year, with scrutiny provided by the Oversight & Scrutiny Management Committee (O&SC).

The budget planning process for 2021/22 began before consideration of the MTFA report by Cabinet in October 2020. BIPs for each Portfolio were prepared and presented for consolidation into the Revenue budget. We note that for 2021/22, the Council ran a budget survey between 22nd December 2020 and 19th January 2021 to help ensure that budget proposals were shaped by Sheffield residents who may have been affected by decisions taken and giving them an opportunity to put forward ideas for consideration.

The budget was subsequently discussed by O&SC in their meeting on 11th February 2021. The Cabinet Member for Finance (Terry Fox) and the Head of Strategic Finance (Dave Phillips) were amongst those in attendance. The Director of Finance and Commercial Services (Ryan Keyworth) presented the Revenue Budget 2021/22 and Capital Strategy 2021-2026 (being the MTFA) to the Committee.

The O&SC Revenue Budget 2021/22 and Capital Strategy 2021-2026 were presented to Cabinet in their 17th February 2021 meeting for discussion and the O&SC's recommendations were approved without amendment. Cabinet then went on to recommend to Council on 3rd March 2021 approval of the Net Revenue Budget 2021/22 of £365.812m, which was given following discussion.

We concluded that there is evidence that management followed the laid down governance processes for the 2021/22 Budget and MTFA.



Value for Money (continued)

Financial Sustainability: Continued

2. Is the Council's budget setting based on robust and justified plans? Were the assumptions made within the 2021/2022 Budget and MTFA reasonable, given the information available to the Council at the time?

The O&SC are tasked with scrutinising the budget monitoring and annual budget setting process. A balanced budget, which is a legal requirement, for the 2021/22 financial year was set for review by the O&SC when it was presented to the Committee in February 2021.

The following assumptions were the most notable of those factored in the budget setting process for 2021/22, as reported to the O&SC in its meeting on 11 February 2021 :

- Reliefs and appeals: it was estimated that the total net business rate income for SCC would amount to £100 million in 2021/22 based on the Business Rates Retention scheme of a 49% retention rate. The budget also contained an additional Government top-up of £43 million and grant income of £15 million, which was a decrease of £4.4 million from 2020/21 figures.
 - [We note that the Council also received £10.4 million additional one-off funding from the NHS in year to support its pandemic response which was not known at the time of setting the budget.]
- Additional funding: the Council planned to use its ability to increase income from its own residents by increasing Council Tax by 4.99%.
 - [The increase in Council taxation of 4.99% was approved by Council on 3 March 2021]

Social Care: The Social Care budget had been increased by 10% a year over the last four years, with a 12.5% increase for 2021/22; this was needed to address the known increase in individual cost of care packages for the year.

- The monitoring and outturn report for 2021/22 noted that as of 31 March 2022 the Council's revenue budget was overspent by £19.8m. The majority of the overspend was in Adult Social Care (£10 million) and Children & Families (£9.4 million) in the People Portfolio due to the cost of care packages being greater than the budget. This was due to Government changes to the provision of 'at home' care packages during the pandemic which resulted in an overspend on staffing.
- There was a one-off contribution received as part of the additional funding mentioned above from the local NHS Clinical Commissioning Group of £3.5m towards the enhanced care of patients but this did not mitigate the entire overspend.
- One-off costs: £12 million of one-off leisure funding was required in 2021/22 to cover costs arising from the significant impacts of the pandemic and to ensure the sustainable delivery of services, plus a further £5 to 6 million of one-off funding identified for use across a range of other leisure services in 2021/22. The leisure funding is part of the covid impacted activities and was therefore allocated one-off funding in the budget. The outturn report notes that the post covid-recovery was stronger than anticipated and the leisure services delivered an underspend of £1.4 million against a prudent budget position.

The subsequent budget monitoring process during the year was done by means of quarterly meetings that were carried out in June, September and November 2021 and July 2022 as part of the revenue budget monitoring meetings (discussed in outturn report as of 31 March 2022) as part of the Revenue Budget Monitoring meetings. The overspends, and therefore deviation from the balanced budget, was noted in September 2021 and led to the Council instituting cost management measures. The three elements to the financial planning are the MTFA, Annual Revenue Budget and Capital Programme. The Revenue Budget in conjunction with the capital strategy, is put forward to the Overview and Scrutiny Management Committee annually, and it is in this meeting that coherence questions are addressed, it is then also approved and discussed in the Council meeting. The MTFS will set an integrated financial plan for at least a three year period and will form the foundation of the Annual Revenue Budget and Capital Programme for the next year and projections for at least the following two years. This includes cash allocation or financial targets for Executive Directors for the forthcoming financial year and guideline allocations / targets for the following two years. The MTFA also includes projections of the Council's reserves and balances.

We concluded that the assumptions made by the Council at the time of preparing the budget and MTFA were reasonable and based on information available at the time; they remained appropriate and made allowances for post-covid budget impacts. A quarterly budget monitoring process was followed and allowed for measures to be implemented and revised throughout the year, rather than just as part of the outturn report.



Value for Money (continued)

Financial Sustainability: Continued

3. Were the Council's savings and reserves plans achievable in light of past performance and did management actively revise their forecasts in line with new developments? Are there any notable gaps in information underpinning its plans?

The s151 Officer discharged his mandatory duty to perform an assessment and declared that the level of savings and budgeted reserves were adequate. Based on actual results at year end (for which the reserves balance was £33 million in excess of the initially budgeted amount instead of drawdowns from reserves) there was actual replenishment of reserves. Subsequently, reserves were adjusted as drawdowns from earmarked reserves are expected during 2022/23.

Management had savings plans in place for individual Portfolios where savings were needed; the actual position for 2021/22 was an overspend on the budget, primarily due to the People portfolio, where the overspend was due to: failure to meet saving plans of £3.5 million in the current year and £5.8 million in the prior year; £12.6 million overspent due to children and family placements, increased cost of homecare packages, staffing and mental health purchasing. The quarterly monitoring of the budget highlighted the overspend and measures were implemented to revise savings plans and use reserves in-year.

At a result, financial sustainability in 2021/22 was not significantly impacted. However, at points throughout the course of our work there have been uncertainties concerning government funding which may impact on the VfM Conclusion for 2022/23 as the Council envisages needing to spend a considerable amount on social care. The Council continues to explore alternative funding, including considering joint partnerships that will allow cost cutting measures.

At the current rate of social care spend continues without alternative income sources, there will be a strain on financial sustainability, as a greater percentage of reserves have already been earmarked. The MFTA to 2025/26 predicted a mid case net budget gap of £121m, this leaves limited reserves for the Council to draw on. The most recent MFTA has revised this figure to a £61m gap to 2027/28, however the difference is due to a majority of the that gap having been realised and absorbed through use of reserves. Whilst there is no impact on the 21/22 VfM conclusion, the area needs to be continuously reviewed as it may have an impact in the future.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure it can continue to deliver its services



Value for Money (continued)

Governance: How the Council ensures that it makes informed decisions and properly manages its risks

Heart of the City II and West Bar Governance

After carrying out our planned procedures, we determined that the Council has dedicated resources to monitor the projects and assess their performance. A CCDB (City Centre Development Board) is in place as a governance tool to ensure Council's objectives are being adhered to. The Cabinet, and latterly the Co-operative Executive Committee, is also appraised on a quarterly basis on progress made, including challenges encountered. The Cabinet / Co-operative Executive Committee provides support through ratifying re-strategies necessary to ensure that the projects remain on track.

There are also separate meetings held with Strategic partners on a monthly basis to appraise SCC Leadership of their progress and challenges. Financial Models have been designed and are used to constantly monitor the financial implications of decisions as well performance of the projects. Risk Registers are updated on a regular basis, together with proposed mitigation plans in the event that the risks materialize. Of note is the risk of low uptake for West Bar rental space which was envisaged during planning phase and mitigated by an insurance plan that the Council has drawn down upon in FY21/22.

The VfM Conclusion is not impacted for FY21/22, however, in light of the cost of living crisis as well as inflation, coupled with an imminent recession period, uptake of new rental space may be low in the near future and therefore, the two projects' financial models need to be assessed for viability more rigorously to ensure that the Council's financial yield is realised.

When conducting the VfM procedures on this area of governance, we focused on two areas:

1. How did management monitor the performance and delivery of the Heart of the City II and West Bar Regeneration Programmes?

The Council's revamp of the Constitution in (May 2022) brought about a decentralization of decision making from resting with one individual to a group of individuals. This also meant that decisions that would have ordinarily been made by one person have had to be decided upon via a committee structure. This extended to all areas of the Council including matters relating to Regeneration projects.

A City Centre Development Board (CCDB) was created to monitor regeneration projects including Heart of the City II and West Bar. For FY 21/22 the CCDB met on a monthly basis to discuss project status updates and all matters relating to regeneration projects such as identified risk and mitigation plans. Tasks are allocated to specific people and are tracked on a monthly basis.

Furthermore, as the implementation of Heart of the City II is in partnership with a strategic partner (Queensbury Park), a monthly report is also produced by the strategic partner and discussed with SCC Leadership in a Joint Management Oversight Board on a monthly basis. The purpose of the meeting is to give a summary of key issues, strategy, and key details for SCC Leadership Team consideration.

On a quarterly basis, Cabinet / Co-operative Executive Committee is appraised of the status of the projects and, if there are decisions that require the approval of Cabinet / Co-operative Executive Committee, they are then tabled or ratified as appropriate.



Value for Money (continued)

Governance: Continued

2. Does the Council continuously assess the financial viability of the Heart of the City II and West Bar Regeneration Programmes against agreed plans?

The Council assesses financial viability of the two regeneration projects through financial models and continuously re-evaluating risk registers. On a quarterly basis, Cabinet, and latterly the Co-operative Executive Committee is appraised of the status of the projects by the Finance and Commercial Business Partner Commercial Projects and if there are decisions that require the Co-operative Executive Committee's approval, they are tabled or ratified as appropriate.

Financial Models are updated as and when the need arises; this is triggered by deviation from plan, which is assessed on a monthly basis.

For FY21/22 the projects were assessed by the Council as viable and they continued to meet the Council's intended objectives through job creation and redevelopment of the city centre.

One of the risks identified in the planning stage has materialized for West Bar, i.e. low uptake of office space in the first three years, FY21/22 being the first year. This was to be mitigated by an insurance plan to cater for the shortfall in revenue arising from low uptake of rental space. The Council has utilized the facility and has drawn down from the insurance cover. Based on the financial projections in the updated financial model for West Bar (March 2022), the facility will cover any loss of rental income up to FY23/24 based on FY21/22 projections.

Reconfiguration of Leisure Assets Governance

After carrying out our planned procedures, we did not identify any significant weaknesses in governance processes in place to decide how to manage the leisure centre assets in preparation for when they are brought back into the stewardship of Council in August 2024.

External experts were engaged to advise the Council, and alternative scenarios were considered before a decision was made to outsource to a management company to operate the leisure facilities. Other matters were also considered in reaching this decision, namely the legal, climate and diversity implications. However, as the selection process is yet to commence, this risk needs to be assessed on a continuous basis until the matter has come to conclusion in August 2024 or a contract is signed with a management company (whichever happens sooner). Therefore, there is no impact on the VfM Conclusion for FY 21/22.

When conducting the VfM procedures on this area of governance, we focused on two areas:

1. **What decision making and governance processes have been considered/used to underpin the reconfiguration of leisure assets from August 24? Are these established processes or newly developed for this event? If the latter, was the process approved per the Constitution?**
2. **Did the Council consider any other alternatives to reconfiguration of the leisure centre assets from August 2024?**

The Council reviewed its Constitution, and a new Constitution was adopted on 18 May 2022. Prior to this, the last review was undertaken in 2019. The new Constitution introduced eight new Policy Committees which included the Communities, Parks and Leisure Policy Committee (CPLPC). The new Constitution outlines the remit of the CPLPC which include amongst other matters, parks, leisure and libraries.



Value for Money (continued)

Governance: Continued

The first meeting held by the CPLPC on 13 June 2022 set out its work programme. This included establishing the need for briefing papers on a number of matters falling under its purview.

A public consultation was undertaken in line with the requirements of the Constitution, with 2,116 residents participating.

In the 14 November 2022 meeting (the third meeting since the CPLPC was set up), the Lead Officer of the Report, advised that the Co-operative Executive Board had approved a programme of investment into the Council's leisure and entertainment facilities and reported that the main condition of the approval was that a competitive procurement process be undertaken to appoint an external partner to run the facilities from September 2024.

In its decision-making process leading up to the 14 November 2022 meeting, the Council considered the following three options for the future management of facilities:

- ▶ In-house management of the facilities
- ▶ Setting up a Local Authority Trading Company (LATC) to operate the facilities, and
- ▶ Appointment of an external partner.

The in-house and LATC options were not selected as they were assessed by the Council to be more expensive and presented a greater level of financial uncertainty and risk to the Council. At the 14 November 2022 meeting, the Council was in favor of the appointment of an external operator.

Per the new Constitution, the Council has considered equality, diversity and inclusion implications and concluded that the new arrangement will address these. Also, per the Constitution, the Council has considered climate and bio-diversity issues. Furthermore, the Council also undertook a Risk and Implications analysis of the decision to outsource to an external management company.

We concluded that The Council has reviewed its current service offering for leisure services and has decided to engage different operators to manage and run the facilities and services. In arriving at this conclusion, it did consider other options, including repatriating the assets into Council management.

Per the new Constitution, the Council was required to undertake three matters prior to making any decision that falls within its remit, namely:

- ▶ Public engagement to inform its work
- ▶ Consider equality, diversity and inclusion implications
- ▶ Consider climate and bio-diversity implications

All three matters were considered and addressed by the Council, which also performed a risk analysis that factored financial, legal, climate and equity and diversity matters.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



Value for Money (continued)

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

Our planning and risk assessment procedures did not identify any significant weaknesses in relation to improving economy, efficiency and effectiveness. See summary of arrangements for this reporting criteria in Appendix A below.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Appendices

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Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p>As part of the Council's budget setting process, each service is required to develop Budget Implementation Plans (BIPs). These BIPs detail the Council's spending for the year ahead showing the activities to be undertaken, anticipated pressures and savings to be delivered. These identified pressures per service are quantified.</p> <p>The Council's Corporate Management Team (CMT) comprising the Chief Executive, Executive Directors and the Directors of Public Health and Policy, Performance and Communications and Member Representatives of the Co-operative Executive, have the responsibility to provide strategic direction. This will include formulating the Council's Medium Term Financial Analysis (MTFA) in order to ensure that adequate resources are available to meet the Council's objectives. The MTFA is a four year financial projection of the Council. The annual budget setting process also informs the MTFA, which is subsequently reviewed annually.</p> <p>Budgets are monitored by the Overview and Scrutiny Management Committee and quarterly by the Co-operative Exec committee after each section of the Council has analysed sectional expenditure. Towards the financial year end, identified pressures during the year (noted from the budget monitoring process) are considered and factored into the MTFS.</p>
How the body plans to bridge its funding gaps and identifies achievable savings	<p>Within the existing statutory and regulatory framework, it is the responsibility of the Executive Director of Resources to ensure that the Council has an adequate level of reserves and that there are clear protocols for their establishment and use. The budgets are monitored by the Overview and Scrutiny Management Committee. The analysis entails scrutiny over budget line items such whether they are of an income or expense nature. The owners of the budget line items make representations to the Overview and Scrutiny Management Committee citing any challenges or opportunities influenced by the status quo.</p> <p>Our review of the various meeting minutes during 2021/22 and discussions with officers noted that a potential funding gap arose due to Covid-19 and other pressures including Adult Social Care. Whilst Central Government support has been forthcoming in 2021/22, future funding is not certain and therefore it is not clear that there will be sufficient ongoing support to all costs of and lost income from COVID-19 and the additional pressures. The Council actively continues to identify and appraise the feasibility of cost reduction plans over the medium term.</p>

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>The Council follows a business planning process that ensures that it defined its priorities and outcomes. Members and officers allocate the Council's resources in a way that aligns with these priorities and outcomes. Council services and commissioners then set clear objectives and targets that reflect the priorities, outcomes, and the level of resource allocated.</p> <p>The Council sets fees and charges for a wide range of the services and goods that it provides. The income that is generated from this is a major source of funding that helps to deliver the Council's key priorities as set out in the Corporate Plan. The Council prepares the Corporate Plan that sets out the vision for the Council and Sheffield. It includes what the Council will do over the next three years in order to deliver the vision.</p> <p>The MTFA links strongly to the Corporate Plan and the Corporate Plan drives the spending priorities that inform the MTFA. This includes allocating the overall expenditure budgets for Locality Areas. The Director of Finance and Commercial Services and the Head of Strategic Finance are responsible for producing the MTFA in conjunction with Executive Directors and recommends measures to the Executive that support the Corporate Plan. This is supported by policy options, savings and efficiencies, and both financial and non-financial information to assist decision-making.</p> <p>The MTFA sets an integrated financial plan for at least a three year period and forms the foundation of the Annual Revenue Budget and Capital Programme for the next year and projections for at least the following two years.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>The Council's Strategy Leadership Board and Co-operative executive have the responsibility for formulating the Council's Medium Term Financial Analysis in order to ensure that adequate resources are available to meet the Council's objectives. All Directors liaise with their sections and come up with budgets which cover all aspects of delivery including workforce, investment and capital. These are then consolidated and deliberated ensuring coherence amongst the various sub budgets and the Council's Strategy. The three elements to the financial planning are the MTFA, Annual Revenue Budget and Capital Programme. The Revenue Budget in conjunction with the capital strategy, is put forward to the Overview and Scrutiny Management Committee annually, and it is in this meeting that coherence questions are addressed. It is then also approved and discussed in the full Council meeting.</p> <p>The MTFA will set an integrated financial plan for at least a three year period and will form the foundation of the Annual Revenue Budget and Capital Programme for the next year and projections for at least the following two years. This will include cash allocation or financial targets for Executive Directors for the forthcoming financial year and guideline allocations / targets for the following two years. The MTFA will also include projections of the Council's reserves and balances.</p>

Appendix A - Summary of arrangements

Financial Sustainability

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>The risk management framework used by Sheffield City Council sets out the methodology and overall approach to managing risk within services, Portfolios and across the Council. The Audit & Standards Committee and Internal Audit have responsibility for considering the effectiveness of the risk management strategy throughout the authority. The Council also produces a Corporate risk register which identifies all current risks faced by the council (including financial risks), assigns a risk score based on probability and impact, and outlines the strategy put in place to mitigate the risk.</p> <p>In line with the requirements of the Council's Risk Management Framework:</p> <ul style="list-style-type: none">• As part of the audit planning process, Executive Directors are responsible for managing risk and for informing Internal Audit of the risks that are prevalent in their area. They are also responsible for agreeing and implementing relevant Audit recommendations;• Directors are responsible for maintaining and monitoring a Service Risks and Assurances log which must include financial risks. <p>Executive Directors are responsible for identifying and controlling risks in their area and significant financial risks should be reported to the Directors of Business Strategy. The Director of Finance & Commercial Services will report the most significant of these risks to the Council's Strategy Leadership Board on a monthly basis and key risks will be summarised and reported to Members in quarterly budget monitoring reports.</p> <p>Directors are responsible for their assigned risks as Risk owners. The Risk Register is a living document with action plans stating mitigating factors to manage identified risks. The Risk Register is reviewed annually assessing risk scores and whether Risk Owners have implemented mitigating plans as appropriate.</p>

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

Findings

The Council's internal auditors provide an independent appraisal function for the review of internal control systems. Internal Audit undertakes reviews of the main financial and operational systems of the Council, based on a risk analysis of the functions undertaken by service areas. Certain aspects of key financial systems are reviewed on an annual basis. Internal Audit also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of its work also contributes to the maintenance of a sound system of internal financial control. The internal audit review did not indicate any lack of controls that were not mitigated or addressed.

The Council has clear and disclosed policies on tackling fraud on the Councils' Intranet and cover the following areas: Anti-fraud and corruption Policy Statement and Strategy, Fraud Risks, Fraud response plan, Anti-Money Laundering Policy, Anti-Bribery Policy, Know Your Customers and Guidance to schools on fraud. Internal Audit is required to be informed of all thefts and frauds by service management as they occur.

To ensure that this process works well, it is supported by a backstop of key corporate services such as BCIS and HR reporting on issues to Internal Audit as they become aware of them.

Internal audit has an annual Internal Audit Annual Fraud Report to inform the Audit and Standards Committee of the outcomes of the work undertaken by Internal Audit on fraud and corruption.

How the body approaches and carries out its annual budget setting process

The budget setting process is performed annually. As part of the Council's budget setting process, each service is required to develop a Business Implementation Plan (BIP). These BIPs will detail the Council's spending for the year ahead showing the activities to be undertaken, anticipated pressures and savings to be delivered. These identified pressures per service are quantified. Budgets are monitored during the year by the Overview and Scrutiny Management Committee and quarterly by the Co-operative Executive committee.

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria	Findings
<p>How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures effective action is taken where needed</p>	<p>Revised budgets for the year (if any) go to the relevant scrutiny committees and then a summary of performance is presented to members of the Executive by the S151 officer and any actions arising from this are discussed and agreed by Members, which are then taken into account by finance in terms of preparing for the next budget update. Finance has its own monitoring mechanisms in place which occur on a monthly basis. Any outliers resulting from monthly outturn reports are dealt with, where possible in the normal course of business by the respective budget holders and their service accountants. Financial performance is measured and monitored throughout the year by the Co-operative Executive Committee, Audit & Standards Committee and Council.</p> <p>The MTFA is a four year financial projection of the Council. The annual budget setting process also informs the MTFA which is subsequently reviewed annually. Budgets are monitored by the Overview and Scrutiny Management Committee and quarterly by the Co-operative Executive Committee after each section of the Council has analysed departmental expenditure. Towards the financial year end, identified pressures during the year (noted from the budget monitoring process) are considered and factored into the MTFA.</p> <p>In addition to the above, the Council has various other sub scrutiny committees that deal with non financial performance matters relating to fundamental services. The committees meet on at least a quarterly basis to review and assess matters concerning their portfolios in line with the Council's objectives. The Financial impact (if any) is also assessed and remedial action taken as appropriate.</p>
<p>How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee</p>	<p>When Key Decisions are to be discussed or made, these are published in the Forward Plan (published towards the end of each week and is a list of the key and non-key Executive Decisions that will be made over the forthcoming three to four month period) in so far as they can be anticipated. These major decisions are to be discussed with Council Officers at a meeting of the Co-operative Executive Committee, this will be open for the public to attend except where personal or confidential matters are being discussed. The minutes of the meetings are also available on the Council's website once approved.</p> <p>Furthermore, the Council has the Audit and Standards Committee which was set up with the mandate to oversee and assesses the Council's risk management, control and corporate governance arrangements and advises the Council on the adequacy and effectiveness of these arrangements. To the extent that the Audit and Standards Committee is concerned about unexpected outcomes, it will advise Council leadership to engage experts as necessary to give counsel or undertake an exercise as appropriate.</p> <p>All decisions must be made in accordance with the principles set out in the Constitution, in line with the Council's overall policies and budget. If they wish to make a decision that is outside the budget or policy framework, this must normally be referred to the Council to decide. We identified the West Bar Regeneration Project and the Heart of the City Capital project as part of key decisions made the Council in FY21/22- see further detail in the body of our report.</p>

Appendix A - Summary of arrangements (continued)

Governance

Reporting Sub-Criteria

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)

Findings

The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers namely, Employee Code of conduct, Members Code of Conduct, Code of Corporate Governance). The Council has to maintain a Statutory Register of Member's interest, this includes the declarations from councillors of any gifts and hospitality which they have accepted over the value of £50 within 28 days of acceptance. The Members' Code of Conduct also requires them to register their disclosable pecuniary interests and other interests. These registers are kept individually on their webpages and is also open for inspection by the public during normal office hours at the Town Hall.

Furthermore, at the beginning of each meeting, all participants are required to declare any interests that maybe related to the matters to be discussed.

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
<p>How financial and performance information has been used to assess performance to identify areas for improvement</p>	<p>The process in respect of performance monitoring is very similar to finance monitoring above. Variances against outturn are reported and monitored through this process. Reasons for variances (both positive and adverse) are provided against each indicator, and any resulting actions agreed are then put into place by the respective department responsible for the indications in question. For the most part, adverse indicator variances would be identified as areas for improvement and are dealt with promptly by the appropriate officer/service line head prior to reporting to Members. Performance monitoring is not as regularly reported.</p> <p>The MTFA is a four year financial projection of the Council. The annual budget setting process also informs the MTFS which is subsequently reviewed annually. Budgets are monitored by the Overview and Scrutiny Management Committee and quarterly by the Co-operative Executive committee after each section of the Council has analysed departmental expenditure . Towards the financial year end, identified pressures during the year (noted from the budget monitoring process) are considered and factored into the MTFA.</p> <p>Areas identified have had challenges, be that financial or performance related, are flagged and reported to the respective sub-committee for further analysis and monitoring together with proposed remedial action to enhance effective, efficient and economic performance. The respective Director for whose portfolio is under scrutiny has to report on progress to the sub-committee pending the matter being closed.</p>
<p>How the body evaluates the services it provides to assess performance and identify areas for improvement</p>	<p>The Council has a business planning process (BIP as above) that is designed to align service activity and objectives to its strategic priorities. Service Plans align with the priorities for Members. A quarterly performance monitoring process tracks progress against the Council's priorities and highlights any potential risks and issues in achieving these. Performance management information about key objectives may also be considered by Members at the Overview and Scrutiny Management Committee. The Council also prepares a Corporate Plan that sets out the vision for the Council and Sheffield. It includes what the Council will do over the next three years in order to deliver the vision.</p> <p>The MTFA links to the Corporate Plan and the Corporate Plan drives the spending priorities that inform the MTFA. This will include allocating the overall expenditure budgets for Local Areas. The Head of Strategic Finance is responsible for producing the MTFS in conjunction with Executive Directors and recommends measures to the Executive that will support the Corporate Plan. This will be supported by policy options, savings and efficiencies, and both financial and non-financial information to assist decision-making.</p> <p>Furthermore, there are sub-committees that meet on a monthly basis to review and discuss the various Council service offerings including assessing progress against mandates, noting areas of improvement and establishing remedial actions. To the extent necessary, the sub-committees also discuss any financial concerns relating to the service offerings.</p>

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

Findings

The Executive Management Team (EMT) comprises the Chief Executive, Executive Directors and the Directors of Public Health and Policy, Performance and Communications, and provides strategic direction. It deals with key corporate issues and strategic service issues. It makes decisions, formulates recommendations for the political leadership, and gives a steer on policy issues where this is necessary. EMT can make managerial decisions on how the Council operates or on the application of policy that has already been politically agreed, but not set new policy which is the role of elected members. The City Council will take steps to help ensure high standards of ethical behaviour are adopted in partnerships of which the City Council is a member. This will be done through applying appropriate elements of this framework to all partnership working, where it is relevant to do so. With regard to partnership working, responsibility for Codes of Conduct and policies of this nature (and so for enforcement action for breach of those codes or policies) generally lies with the relevant individual organisation in the partnership.

The significant partnership to note is Sheffield Joint Health and Wellbeing Board which is a partnership between Sheffield City Council, the NHS and a range of partners in the city that aims to deliver a single approach to improving the health & wellbeing of Sheffield residents. The Board has 4 formal public meetings a year, which members of the public can attend and ask questions. It also has a number of Strategy Development sessions throughout the year which are open for members of the public to observe. The Board has also publishes an updated Joint Health & Wellbeing Strategy for Sheffield, currently covering the period 2019-24.

Furthermore, the Council has established a Sheffield Partnership Board which includes independent members of the Council working together with the Council Leadership including the CEO in her capacity as the Director of Policy, Performance and Communications. The Board has regular meetings to review and analyse performance of partnerships and assess their effectiveness inline with their set mandates. The minutes to the meetings are published on the Sheffield City Board Partnership website. Areas of concern are noted and monitored by the Board and prescribed action is advised for remedy.

Appendix A - Summary of arrangements (continued)

Improving economy, efficiency and effectiveness

Reporting Sub-Criteria

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

Findings

The Constitution of the Council contains the procurement strategy, the procurement process and ensuring proper process are in place and approval is given as per the processes are the responsibility of the Director of Finance & Commercial Services. The procurement strategy used on all tendering for every Contract with a Contract Value over £25,000 (Goods and Services) or over £50,000 (Works) must be consistent with this Order and any relevant legislation and this must be confirmed by the Director of Finance and Commercial Services. Where appropriate, the financial, human resources, legal and equalities implications must be agreed with the relevant department before the procurement strategy is presented to the Director of Finance and Commercial Services. Where it is known that for a Contract with a Contract Value under these financial thresholds a Procurement Professional will be allocated to undertake the procurement exercise.

During the Financial Period under review, we noted capital expenditure that includes a number of redevelopments either in progress or planned as part of the Council led Heart of the City II, which has an approved capital budget of £469m. The project includes a wide range of large and small retail outlets in the city centre, and the major shopping and leisure mall at Meadowhall. Due to the size and nature of the project, there is a risk that the potential expenditure may have not been done in accordance with the relevant legislation, standards and policies. In addition, given the impact of Covid-19 on the Council's finances leading to financial constraints, efficient, effective and economic use of resources is critical and therefore an extended review of these capital projects is necessary to ascertain whether the appropriate legislation, standards and internal policies were applied.

Appendix B - Summary of all recommendations

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>Financial statements: PPE Valuations</p> <p>The work of our valuation specialists identified a number of errors in the inputs of valuations made in the year.</p>	<p>Attention should be given to review the inputs being used in the valuation process.</p>	<p>We will work closely with our experts in Property Services to appraise what factors are appropriate in making reasonable judgements and review valuation approval processes to check for formula errors.</p>
<p>Financial statements: Related Parties</p> <p>Work comparing the various interests held by members to the disclosure made by management in the financial statements identified eight related parties that had not been included.</p>	<p>Management should investigate how declared interests were omitted from their disclosures and act accordingly whilst reminding members to provide full declarations of interest and updating when circumstances change.</p>	<p>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.</p> <p>The Accounting team will review processes, particularly the timing of data capture, to ensure all declarations are included in the disclosures.</p>
<p>Financial statements: Bank Reconciliations</p> <p>We identified significantly higher bank lodgements at the year-end than the Council would expect, including some a year old. A number of these items should have been matched and the income reflected in the financial statements.</p>	<p>Although we understand the reasons that these were not matched, this presents a risk that the financial position is misstated.</p> <p>Management have presented an updated position in October 2022 which shows the majority of items have since been cleared.</p>	<p>More user friendly and timely information is now being published and distributed to budget holders, along with detailed guidance and regular communication / alerts to promote and support the process. A new policy is also being developed to enable Treasury to act if items are unmatched beyond an agreed period.</p>
<p>Financial statements: PPE Valuations</p> <p>The work of our valuation specialists has identified that management have utilised a blended UEL approach for Specialised Assets valued under the depreciated replacement cost method. This has led to obsolescence being overstated for a sampled asset and potentially for other older assets.</p>	<p>Management should consider whether a more tailored UEL should be applied to different asset types.</p>	<p>Property Services experts have agreed to review their approach to Useful Economic Lives in DRC assets specialist assets.</p>
<p>Financial statements: General Ledger Controls</p> <p>Upon inspection the GL transaction data for interim and year end was incomplete causing variances in the completeness analysis when comparing the TB movement to the GL transactions.</p>	<p>This was driven by missing journals when the data was downloaded from the system before the GL had been closed.</p> <p>Controls should be introduced to ensure checks are made on the inclusion of relevant codes.</p>	<p>We note the audit finding and acknowledge the early information request provided to EY's data analytics team was incomplete on the original transaction data download where the system was not yet closed.</p>

Appendix B – Summary of all recommendations [optional]

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>Financial statements: Termination Benefits</p> <p>Due to lack of understanding of the requirements of the reporting framework, exit packages funded from the HRA had not been disclosed in the Financial Statements.</p>	<p>This note is sensitive and thus any errors or omissions require amendment, management should ensure that those responsible for compiling disclosures within the financial statements are aware of the requirements.</p>	<p>Following staff changes and handover this year, new members of the team, preparing the information for the note, are being trained in the Code guidance.</p>
<p>Financial statements: Payroll</p> <p>Management struggled to obtain the supporting information for the Schools' staff included in the Officers' Remuneration disclosure.</p>	<p>Management should identify how information can be provided from Capita in a more timely basis and investigate if there are or have been breaches of Service Level Agreements.</p>	<p>We will liaise with Capita and Schools to see where improvements can be made in the process of providing year end information and supporting documentation to assist the audit.</p>
<p>Financial statements: Goods Received Not Invoiced</p> <p>In our testing of creditors we have identified old GRNI within the year-end balances, some of which date back as far as 2017.</p>	<p>These should be reviewed on an annual basis with any older than 12 months being justified for continued inclusion. This could potentially free up committed expenditure from budgets.</p>	<p>We have undertaken a detailed analysis of all receipts without an invoice, with a view to closing older orders once consultation with budget holders is complete.</p>
<p>Financial statements: Internal transfers of income</p> <p>We identified items of income in relation to schools, double-counted both in the records of the Council and on consolidation of the Schools' balances.</p>	<p>Management should ensure that processes are in place to manually review for double-counted income, in particular in relation to schools and perform, where applicable, manual adjustments to remove the additional entries from the financial statements</p>	<p>The Accounting and Schools teams have built in a joint manual review process into the year-end timetable to ensure income isn't reported in both schools and consolidated Council balances.</p>
<p>Financial statements: Disbursements to third parties.</p> <p>We identified a receipt of income in relation to the repayment of short-term liquidity support provided to an NHS organisation. NHS organisations are prohibited from obtaining financing from external sources.</p>	<p>Where unusual transactions are made, management should document the governance processes followed and consider whether there is any potential reputational risk to the Authority by making payments alongside the usual considerations made in relation to liquidity and income generation.</p>	<p>The Council provided short term assistance to our NHS Partners in the city who were operating in an emergency Command and Control role during Covid. We acknowledge that our internal processes can be improved, and steps have been taken to ensure the necessary governance is better documented.</p>

Appendix B – Summary of all recommendations [optional]

Recommendations

The table below sets out all the recommendations arising from the financial statements and value for money audits in 2021/22. All recommendations have been agreed by management.

Issue	Recommendation	Management Response
<p>Financial statements: Highways Infrastructure Assets</p> <p>The Council currently does not have sufficient information within its Fixed Asset Register to be able to split infrastructure assets into sub-categories.</p>	<p>Management should consider how they can identify a meaningful basis upon which the balance of Highways Infrastructure capitalised through the PFI contract can be apportioned to each of the categories of:- Streetlighting; Carriageways; and Footways.</p>	<p>The Accounting team is working with Amey and our Contracts team to understand the new potential accounting requirements and how historic and future data, and balances, may need to be categorised and accounted for.</p>
<p>Financial statements: Highways Infrastructure Assets</p> <p>Due to the age profile of the majority of the Council's Highways Infrastructure assets, there has not yet been significant replacement of the Assets acquired under the PFI Contract.</p>	<p>As the contract matures, it will be necessary for the Council to introduce a mechanism for monitoring where assets are replaced and establish an accounting policy for how to ensure the Financial Statements and Fixed Asset Register remain materially correct.</p>	<p>Amey provides the Council with asset information to a good standard. The Accounting team is working with Amey and our Contracts team to see how this information, together with other contract monitoring mechanisms, can be utilised to account for asset replacement.</p>

Appendix C - Fees

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment, pensions, value for money and other areas. As a result, we have discussed an associated additional fee with management which remains subject to approval by PSAA Ltd.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Total Audit Fee - Code work	299,064	143,988	269,288
Non-audit work: Housing Benefits	65,500	43,000	35,500

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 have proposed an additional fee for 20/21 of £125,300 and for 21/22 of £155,076. These additional fees remain subject to approval by the PSAA.

We confirm we have undertaken non-audit work in respect of Housing Benefits. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO.

Appendix C - Fees Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members 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 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. / We highlight the following relationships that may be reasonably considered to bear upon our objectivity and independence. However we have adopted the safeguards noted below to mitigate these threats.

Services provided by Ernst & Young

The previous page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

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.

We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in May 2020.



Appendix D - Certificate

Certificate

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

Issue of audit opinion on the financial statements

In our audit report for the year ended 31 March 2022 issued on 27 March 2024 we reported that, in our opinion, the financial statements:

- gave a true and fair view of the financial position of Sheffield City Council as at 31 March 2022 and of its expenditure and income for the year then ended; and
- had been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

Certificate

~~Delay in certification of completion of the audit~~

On our report dated 27 March 2024, we explained that we could not formally conclude the audit and issue an audit certificate until we had completed the work necessary to issue our assurance certificate in respect of the Authority's Whole of Government Accounts consolidation pack. This assurance statement has now been issued and the NAO as group auditor has confirmed that no further assurances will be required from us as component auditors of Sheffield City Council.

In our report dated 27 March 2024, we also explained that we could not formally conclude the audit and issue an audit certificate until we had issued our Auditor's Annual Report, including our commentary on your value for money arrangements. This report has now been issued.

No matters have come to our attention since that date that would have a material impact on the financial statements on which we gave an unqualified opinion and no matters have come to our attention that would have resulted in a different opinion on the financial statements or additional exception reporting on significant weaknesses in the Authority's value for money arrangements.

We certify that we have completed the audit of the accounts of Sheffield City Council 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.

Hayley Clark (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Birmingham

Date:

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