



cutting through complexity

Report to those charged with governance (ISA 260) 2014/15

Sheffield City Council

September 2015

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This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact trevor.rees@kpmg.co.uk, the engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises:

- the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the Council; and
- our assessment of the Council's arrangements to secure value for money.

Scope of this report

This report summarises the key findings arising from:

- our audit work at Sheffield City Council ('the Council') in relation to the Council's 2014/15 financial statements; and
- the work to support our 2014/15 conclusion on the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources ('VFM conclusion').

Financial statements

Our *External Audit Plan 2014/15*, presented to you in August 2015, set out the four stages of our financial statements audit process.



This report focuses on the third stage of the process: substantive procedures. Our on site work for this took place during July/August 2015 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

VFM conclusion

Our *External Audit Plan 2014/15* explained our risk-based approach to VFM work. We have now completed the work to support our 2014/15 VFM conclusion. This included:

- assessing the potential VFM risks and identifying the residual audit risks for our VFM conclusion;
- considering the results of any relevant work by the Council and other inspectorates and review agencies in relation to these risk

areas; and

- carrying out additional risk-based work.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Council.
- Section 4 outlines our key findings from our work on the VFM conclusion.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior recommendations and this is detailed in Appendix 2.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Council.

Sections three and four of this report provide further details on each area.

Proposed audit opinion	We anticipate issuing an unqualified audit opinion on the Council's financial statements by 30 September 2015. We will also report that your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007.
Audit adjustments	We identified one audit adjustment above materiality. This was presentational in nature.
Key financial statements audit risks	We have worked with officers throughout the year to discuss specific risk areas. The Council addressed these issues appropriately.
Accounts production and audit process	<p>The Council has continued to produce good quality accounts, well supported by working papers. In particular for the past three years the Council has produced and made available its working papers electronically, which greatly facilitates our audit. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales. These strong processes meant that only limited (mainly presentational) amendments were made following our audit.</p> <p>The Council has attempted to address the issue from our recommendation in the <i>ISA 260 Report 2013/14</i> relating to the financial statements. However due to issues outside of the Council's control at the Pension's Authority, we will need to revisit this again in 2015/16.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Whole Government Accounts ■ DSG Note (Non-significant account) ■ Declaration of interests (Related party transactions) <p>Before we can issue our opinion we require a signed management representation letter.</p> <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.</p>
VFM conclusion and risk areas	We anticipate issuing an unqualified VFM conclusion by 30 September 2015. As part of our work this year we have reviewed whether Adult Social Care has made sufficient progress in addressing the issues that led to the qualified VFM conclusion last year. We are satisfied that sufficient progress has been made whilst recognising that the service has an ongoing improvement plan.

We have identified one issue in the course of the audit that is considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Council's Statement of Accounts by 30 September 2015.

The wording of your Annual Governance Statement complies with guidance issued by CIPFA/SOLACE in June 2007

Proposed audit opinion

We anticipate issuing an unqualified audit opinion on the Council's financial statements following approval of the Statement of Accounts by the Audit Committee on 25 September 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality level for this year's audit was set at £27 million. Audit differences below £1.3m are not considered significant.

We identified one material misstatement which was presentational in nature. Infrastructure assets relating to the Highways PFI scheme were not shown separately in the disclosure of PFI assets included in PPE in Note 14. The note has now been amended to include the infrastructure assets in the total PFI assets included in PPE. These assets include additions in earlier years and so the comparatives have also been restated.

In addition, we identified a small number of presentational adjustments required to ensure that the accounts are compliant with the *Code of Practice on Local Council Accounting in the United Kingdom 2014/15* ('the Code'). We understand that the Council will be addressing these where significant.

Annual Governance Statement

We have reviewed the Annual Governance Statement and confirmed that:

- it complies with *Delivering Good Governance in Local Government: A Framework* published by CIPFA/SOLACE; and
- it is not misleading or inconsistent with other information we are aware of from our audit of the financial statements.

Section three
Financial Statements (continued)
Significant risks and key areas of audit focus

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

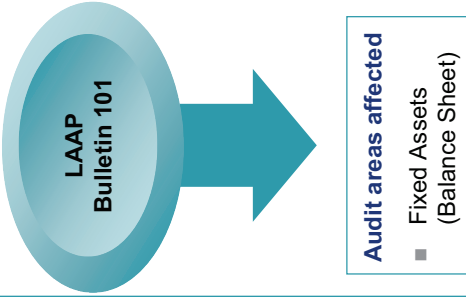
The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
<p>Audit areas affected</p> <ul style="list-style-type: none"> All areas 	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
<p>Audit areas affected</p> <ul style="list-style-type: none"> None 	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Financial Statements (continued) Significant risks and key areas of audit focus (continued)

In our *External Audit Plan 2014/15*, presented to you in February 2015, we identified an area of audit focus. This was not considered as significant risk at the time, but following reconsideration of the importance of the issue, we reclassified this as a significant risk. We have carried out some substantive audit procedures to ensure there is no risk of material misstatement.

We have now completed our testing. The table sets out our detailed findings for this risk.

Significant Risk	Issue	Findings
	<p>Risk</p> <p>CIPFA issued LAAP Bulletin 101 in December 2014. This provides guidance on Accounting for Non-Current Assets Used by Local Authority Maintained Schools. Due to the potential for material error, we changed our approach to treat this as a significant risk so as to ensure the correct focus on this area.</p> <p>Work proposed</p> <p>Review the schools affected and consider the proposed accounting treatment of these following the new guidance in LAAP 101.</p>	<p>Our review identified that all schools barring one were not affected by the guidance since they were already accounted for on balance sheet.</p> <p>The one Foundation School that was affected has now been brought on balance sheet in 2014/15. This was done as an in year revaluation adjustment which is contrary to the LAAP Bulletin which states that recognition of assets should be treated as a change in accounting policy and applied retrospectively.</p> <p>Since the value of the school (£1.2m) is below our threshold for regarding issues as significant, the impact of the changes are deemed to be trivial and no further amendment has been made to the financial statements in 2014/15.</p>

Section three

Financial Statements (continued)

Accounts production and audit process

The Council has continued to produce good quality accounts, well supported by working papers. These strong processes meant that only limited amendments were made following our audit.

Officers dealt efficiently with audit queries and the audit process could be completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Council's accounting practices and financial reporting. We also assessed the Council's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Council has continued to produce good quality accounts, well supported by working papers. In particular for the past three years the Council has produced and made available its working papers electronically, which greatly facilitates our audit. These strong processes meant that only limited (mainly presentational) amendments were made following our audit. We consider that accounting practices are appropriate.
Completeness of draft accounts	We received a complete signed set of draft accounts on 30 June 2015, which had been signed on the 23 rd June and published on the 26 th June.
Quality of supporting working papers	Our <i>Accounts Audit Protocol</i> , which we issued in March 2015 and discussed with the Finance Manager (Financial Planning & Accounting), set out our working paper requirements for the audit. The quality of working papers provided was good, and met the standards specified in our <i>Accounts Audit Protocol</i> .
Response to audit queries	Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.

Prior year recommendations

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

The Council has attempted to implement the single recommendation we made in our *ISA 260 Report 2013/14*. The Council, through its payroll provider (Capita) have been delivering accurate pay data within agreed timescales to SYPA. However in December 2014 SYPA attempted to implement a new Civica pensions system. Unfortunately the new pensions system failed to implement as planned leaving SYPA with operational issues including the inability to measure performance in regards to data flows from bodies. Therefore due to these issues at the Pension's Authority we will need to revisit this again in 2015/16.

Appendix 2 provides further details.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our *Annual Audit Letter* and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of Sheffield City Council for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Sheffield City Council and its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Interim Director of Finance for presentation to the Audit Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's professional judgment, are significant to the oversight of the

financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report or our previous reports relating to the audit of the Council's 2014/15 financial statements.

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

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

Background

Auditors are required to give their statutory VFM conclusion based on two criteria specified by the Audit Commission. These consider whether the Council has proper arrangements in place for:

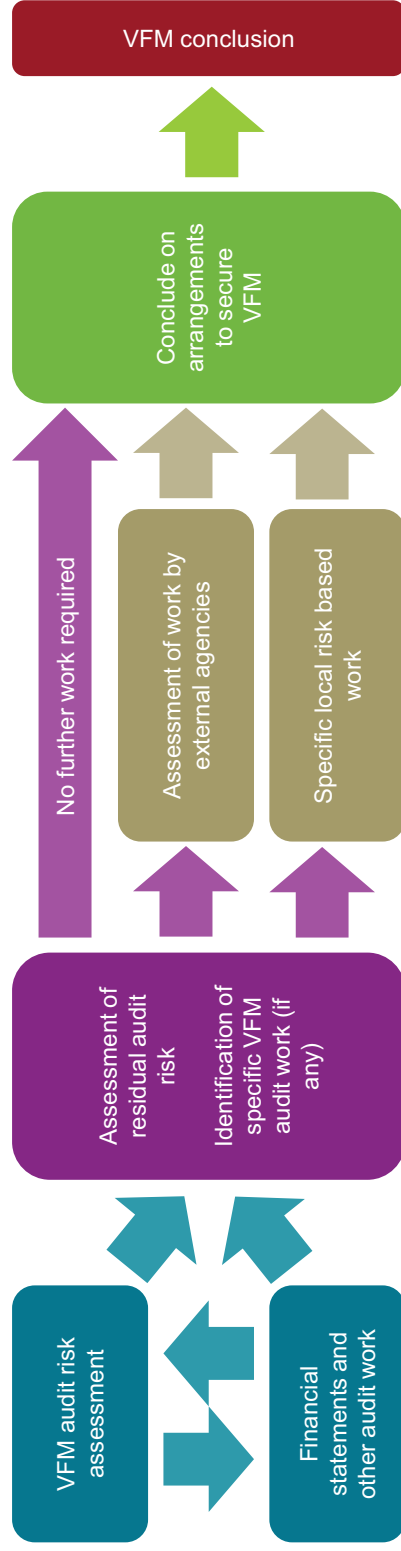
- securing financial resilience: looking at the Council's financial governance, financial planning and financial control processes; and
- challenging how it secures economy, efficiency and effectiveness: looking at how the Council is prioritising resources and improving efficiency and productivity.

We follow a risk based approach to target audit effort on the areas of greatest audit risk. We consider the arrangements put in place by the Council to mitigate these risks and plan our work accordingly.

The key elements of the VFM audit approach are summarised in the diagram below.

Work completed

We performed a risk assessment earlier in the year and have reviewed this throughout the year.



We have not identified any significant risks to our VFM conclusion and therefore have not completed any additional work.

The following pages include further details of our VFM risk assessment.

Conclusion

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

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

We have identified a number of specific VFM risks.

In most cases we are satisfied that external or internal scrutiny provides sufficient assurance that the Council's current arrangements in relation to these risk areas are adequate.

Work completed

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

- assessed the Council's key business risks which are relevant to our VFM conclusion;
- identified the residual audit risks for our VFM conclusion, taking account of work undertaken in previous years or as part of our financial statements audit;
- considered the results of relevant work by the Council, inspectorates and review agencies in relation to these risk areas; and
- completed specific local risk based work.

Key findings

Below we set out the findings in respect of the two areas where we have identified a residual audit risk for our VFM conclusion at the planning stage of the audit.

Our detailed risk assessment provided sufficient assurance that the Council's arrangements around savings plans were adequate. However, we concluded that we needed to carry out additional work this year to assess the progress made in addressing last year's issues around Adult Social Care. This work is now complete and we also report on this below.

We have identified a number of specific VFM risks.

Following our work we have concluded that sufficient progress has been made in Adult Social Care to enable us to give an unqualified VFM conclusion.

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Council has carried out its own detailed and thorough review of the causes of the overspend within Adult Social Care, and the result were reported to the Audit Committee in July 2014.</p> <p>This review made a significant number of recommendations. There were weaknesses in governance and risk management arrangements, and improvements required in budgetary processes, and overall management control. As a consequence we qualified the Council's value for money conclusion in 2013/14.</p>	<p>We concluded that we needed to carry out additional work on this risk area to gain assurance on the progress made. Throughout the course of the financial year the Council has continued to implement the agreed action plan to address the issues that arose in Adult Social Care during 2013.</p> <p>The Audit Committee has received regular update reports on progress and a project board has been established to oversee the changes that are required. The service has been restructured and a range of new controls and procedures have been put in place to address the weaknesses that the Council had previously identified. The Council's Annual Governance Statement set out the progress that has been made and determined that Adult Social Care is no longer a significant risk, although improvements still need to be made.</p> <p>The service incurred an overspend in the financial year, but budget monitoring processes effectively tracked the position and the level of overspend was significantly reduced compared to previous years.</p> <p>Conclusion</p> <p>Although further progress needs to be made, we are satisfied that the Council has arrangements in place to address the remaining risks in the service.</p>

Key VFM risk	Risk description and link to VFM conclusion	Assessment
	<p>The Council continues to face the requirement to reduce its spend as Central Government funding reduces. The 2014/15 to 2019/20 financial strategy assumes that there will be £37m and £41.5m of reductions in Government funding in 2014/15 and 2015/16 respectively. These reductions, added to the costs pressures that the Council was facing meant that £58.4m of savings had to be achieved as part of the 2014/15 budget. The Council set a balanced budget for 2014/15 incorporating the agreed savings. The savings required for 2015/16 have been built into the budget currently in place, although further work will be needed to ensure these savings are delivered.</p> <p>This is relevant to both the financial resilience and economy, efficiency and effectiveness criteria of the VFM conclusion.</p>	<p>The Council has continued its considered approach to seeking efficiency savings throughout the year. The Council achieved a small underspend of £0.6m in 2014/15, a position that had been broadly predicted since Month 8.</p> <p>For 2015/16 the Council approved a balanced budget which included savings proposals for bridge a £62.6m gap. At the time of writing, the Council is reporting a potential overspend of £13m, slightly higher than at the equivalent time last year. However, officers are confident that action is being taken to bring this overspend to a manageable position before the end of the 2015/16 financial year.</p> <p>Although details are not available for government funding for the year 2016/17 and beyond, the Council is currently developing savings proposals to bridge gaps of £16.8m in 2016/17 and £21.2m in 2017/18 as set out in its current Medium Term Financial Plan covering the years to 2019-2020.</p> <p>We have concluded that whilst the financial position will remain a challenge, the Council has adequate arrangements in place to address the need for savings plans for future years.</p>

Appendix 1: Key issues and recommendations

We have given each recommendation a risk rating and agreed what action management will need to take.
 The Council should closely monitor progress in addressing specific risks and implementing our recommendations.
 We will formally follow up these recommendations next year.

Priority rating for recommendations			Management response / responsible officer / due date
1	2	3	
<p>Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>	<p>Finance Manager - SCC Those assets, which meet the definition of Assets Held For Sale at the balance sheet date, are transferred to that category on 31 March each year. The current system settings on the asset register are reporting the in-year transactions against the final category, rather than the in-year category. The issue is presentational for reporting; in previous years the value has not been considered material enough to warrant the cost of the correction, but now that the value of the presentational error has increased, the system developer will be commissioned to change the incorrect settings.</p>
<p>No.</p>	<p>Risk</p>	<p>Issue and recommendation</p>	<p>Management response / responsible officer / due date</p>
1	2	<p>Issue The audit adjustment arising from our work on PPE relates to the presentation of revaluation movements on assets reclassified from PPE to Assets Held For Sale in year. The revaluation occurred before the reclassification and the revaluation movements should be shown as part of the movements on PPE in Note 14 with a corresponding change to the value of assets reclassified to Assets Held For Sale instead of as a revaluation movement on Assets Held For Sale. The value of the revaluation movements is £3.3m. The same audit adjustment was also required in 2013/14. Recommendation The Council should review prior year audit adjustments as part of the accounts closedown process to ensure that errors are not repeated.</p>	<p>Finance Manager - SCC Those assets, which meet the definition of Assets Held For Sale at the balance sheet date, are transferred to that category on 31 March each year. The current system settings on the asset register are reporting the in-year transactions against the final category, rather than the in-year category. The issue is presentational for reporting; in previous years the value has not been considered material enough to warrant the cost of the correction, but now that the value of the presentational error has increased, the system developer will be commissioned to change the incorrect settings.</p>

Appendix 2: Follow up of prior year recommendations

Due to issues outside of the Council's control at the Pensions Authority, we will need to revisit our single recommendation in our ISA 260 Report 2013/14 in the 2015/16 audit.

This appendix summarises the progress made to implement the recommendations identified in our ISA 260 Report 2013/14 and re-iterates any recommendations still outstanding.

Number of recommendations that were:	
Included in original report	1
Implemented in year or superseded	N/A
Remain outstanding (re-iterated below)	1

No.	Risk	Issue and recommendation	Officer responsible and due date	Status as at 30 June 2015
1	2	<p>Pensions data flows Some progress has been made in improving the timeliness and accuracy of pensions data passed to South Yorkshire Pensions Authority (SYPA) since 2010, particularly in immediate past, and officers are optimistic that progress has been made in addressing the underlying issues. However this remains an area where improvements are required, so further work remains to be done.</p> <p>Recommendation The Council should liaise with South Yorkshire Pensions Authority to ensure that continuing action is taken to address the issues in respect of data flows, and take further action if performance does not improve.</p>	<p>The Council, through its payroll provider (Capita) have been delivering accurate pay data within agreed timescales to SYPA. However in December 2014 SYPA attempted to implement a new Civica pensions system. Unfortunately the new pension system failed to implement as planned leaving SYPA with operational issues including the inability to measure performance in regards to data flows from bodies.</p> <p>SCC has monitored progress against these issues through SYPA's Pension Manager and reported progress monthly at the HR& Payroll Service Operations Board where the issue is itemised as part of the Control log.</p>	<p>Ongoing. We will need to revisit this again in 2015/16 when the new pension system is able to monitor performance of data flows from bodies.</p>

There was one corrected material misstatement (presentational) in the accounts

There were a number of non-material presentational improvements made to the accounts.

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

Uncorrected audit differences

There are no uncorrected audit differences above triviality.

Corrected audit differences

Material misstatements (presentational)

PFI Scheme

Infrastructure assets relating to the Highways PFI scheme with a net book value at 31 March 2015 of £39.4m were not shown separately from the disclosure of PFI assets included in PPE in Note 14. The note has now been amended to include the infrastructure assets in the total PFI assets included in PPE. These assets includes additions in earlier years and the comparatives have also been restated.

Non material audit differences (presentational)

Our audit identified a small number of non material errors in the financial statements. These have been discussed with management and the financial statements have been amended for all of them. A number of other minor amendments focused on presentational improvements have also been made to the draft financial statements. Strategic Finance are committed to lead continuous improvement in the quality of the financial statements submitted for audit in future years.

Appendix 4: Declaration of independence and objectivity

The *Code of Audit Practice* requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Council.

Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

"Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors' functions, if it would impair the auditors' independence or might give rise to a reasonable perception that their independence could be impaired."

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

Appendix 4: Declaration of independence and objectivity (continued)

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Council's financial statements.

Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of Sheffield City Council for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and Sheffield City Council, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

Appendix 5: Materiality and reporting of audit differences

For 2014/15 our materiality is £27 million for the Council's accounts.

We have reported all audit differences over £1.3m million for the Council's accounts to the Audit Committee.

Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We reassessed materiality for the Council at the start of the final accounts audit. Materiality for the Council's accounts was set at £27 m which equates to around 2 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

In the context of the Council, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.3 m for the Council.

Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG. We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drivers of quality through a focused and consistent voice.

Sue Sunderland as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudit application has significantly enhanced existing audit functionality. eAudit enables KPMG to deliver a highly technically enabled audit. All of our staff have a searchable data base,

Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

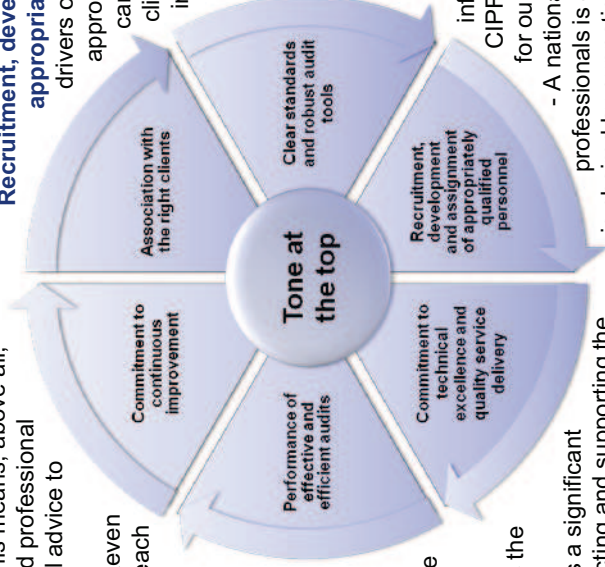
Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Council's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.
- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.



Appendix 6: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery: Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report issued in June 2015 showed that we are meeting the overall audit quality and regulatory compliance requirements.



cutting through complexity