KPMG

External audit report 2016/17

Sheffield City Council

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DRAFT

September 2017

Summary for Audit and Standards Committee

Financial statements

This document summarises the key findings in relation to our 2016-17 external audit at Sheffield City Council ('the Authority').

This report focusses on our on-site work which was completed in July-August 2017 on the Authority's significant risk areas, as well as other areas of your financial statements. Our findings are summarised on pages 5-15.

We have identified three audit adjustments. Two of these were in relation to the restatement of the CIES which were caused by a formula error and the inclusion of internal recharges. Amendments were also made to the Payroll Banding Disclosure as the initial workings did not agree back to source documentation. See page 30 for details.

Based on our work, we have raised 9 recommendations, the majority of these relate to strengthening the valuation and impairment assessment of Property, Plant and Equipment. Details on our recommendations can be found in Appendix 1.

None of these recommendations impacted upon the reported General Fund balance or reserves. Hence, there is no impact on future council tax levels.

Due to the receipt of two objections to the accounts it is unlikely that the accounts will be signed prior to 30th September. Due to the outstanding work and objections received we are unable to anticipate the opinion to be issued. Our work on these objections is dependant upon the receipt of information from the Council which is still outstanding. Full details can be seen at Page 4.

Use of resources

We have completed our risk-based work to consider whether in all significant respects the Authority has proper arrangements to ensure has taken properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. We have concluded that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Due to the objections received we are unable to finalise our conclusion at this time as our work around these objections may impact upon our final conclusion

See further details on page 16.

Acknowledgements

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

We ask the Audit and Standards Committee to note this report.

The key contacts in relation to our audit are:

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Status of the Audit

Objections

The public rights relating to local authority accounts, as set out in the Local Audit & Accountability Act 2014, include the right for a local elector to raise an objection to an item of account in the financial statements with the auditor.

On 25th July 2017 we received an objection from a local elector. This objection relates to the lawfulness of the Council's Lender Option Borrower Option (LOBO) loans. In the 2016/17 draft financial statements the Council has over £200 million of LOBO loans on its balance sheet. We accepted the objection on 4th August 2017, and have commenced our audit work.

We also received a second objection from another local elector. This objection relates to the lawfulness of the Council's Private Finance Initiative schemes. We have not yet completed our initial assessment and have not formally accepted the objection at the time of writing.

The audit process in investigating, concluding and reporting on objections can be lengthy, complex and time consuming, Public Sector Audit Appointments Ltd expect that auditors complete their work on objections within 9 months of accepting the objection. Consequently, due to the complexity and materiality of the issues subject to objection, we do not expect that we will be in a position to complete our 2016/17 audit, and provide our audit opinion, before the statutory 30 September 2017 deadline. This affects both the financial statement and value for money opinion.

Accounts Work Outstanding

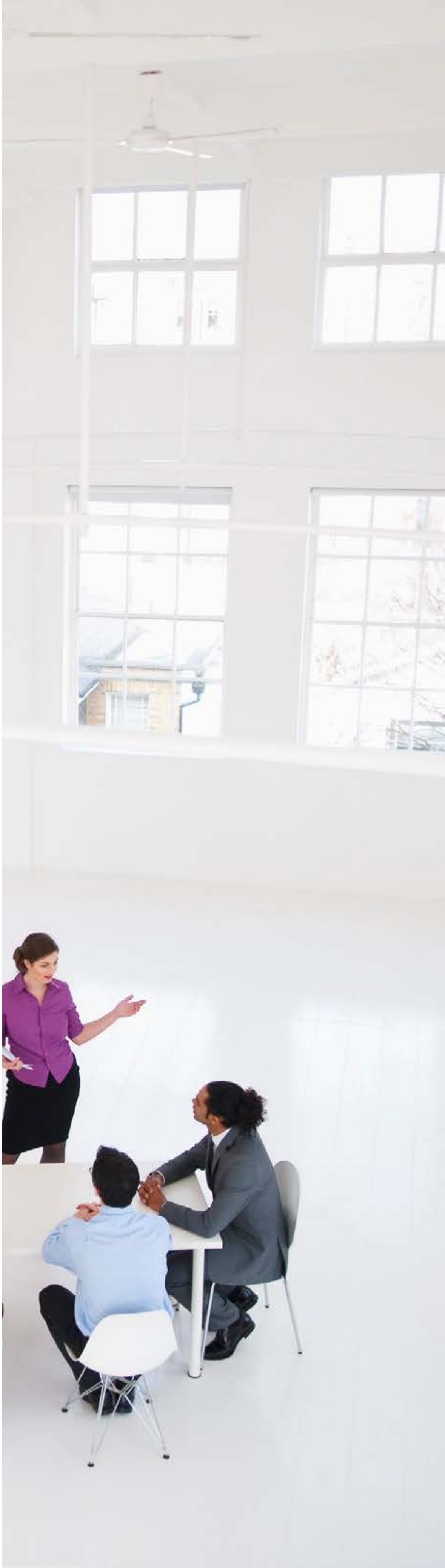
As noted throughout this report there are still a number of audit areas outstanding. These are highlighted below:

- Property, Plant and Equipment;
- Testing of Capita data in relation to NNDR and Council Tax Receivable and Payable;
- Awaiting one external confirmation to support the Borrowings figures, which the council is actively chasing;
- Journals; and
- A number of queries on income and expenditure items.

Following the finalisation of the above queries outstanding we will review the updated financial statements.

Whole of Government Accounts

The submission was made by the Council on 19th July 2017, this was 12 working days late for the initial submission deadline of 30th June 2017. Audit work on WGA commences after the main audit is completed. The final audited submission deadline is 29th September and the Council are still working through audit queries on this.

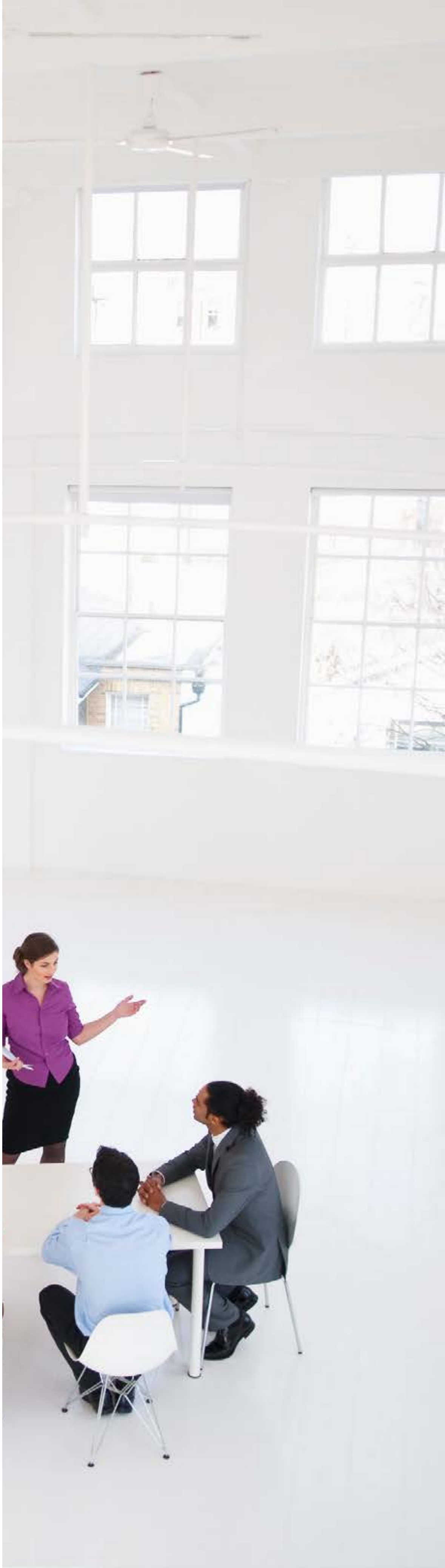


Section one

Financial Statements

As listed on page 4 there are a number of outstanding items and objections of the accounts to be considered. Therefore, we are not in a position to anticipate the opinion to be given on the Authority's 2016/17 financial statements. Due to objections received to the accounts a timeframe for signing has not been agreed. We will also report that your Annual Governance Statement complies with the guidance issued by CIPFA/SOLACE (*'Delivering Good Governance in Local Government'*) published in April 2016.

For the year ending 31 March 2017, the Authority has reported a surplus of £301m, this is largely due to the upward valuation of Council Dwellings. The impact on the General Fund has been a decrease in the General Fund.



Significant audit risks

Our *External Audit Plan 2016/17* sets out our assessment of the Authority's significant audit risks. We have completed our testing in these areas and set out our evaluation following our work:

Significant audit risks	Work performed
1. Significant changes in the pension liability due to LGPS Triennial Valuation	**Why is this a risk?** During the year, the Local Government Pension Scheme for South Yorkshire (the Pension Fund) has undergone a triennial valuation with an effective date of 31 March 2016 in line with the Local Government Pension Scheme (Administration) Regulations 2013. The Authority's share of pensions assets and liabilities is determined in detail, and a large volume of data is provided to the actuary in order to carry out this triennial valuation. The pension liability numbers to be included in the financial statements for 2016/17 will be based on the output of the triennial valuation rolled forward to 31 March 2017. For 2017/18 and 2018/19 the actuary will then roll forward the valuation for accounting purposes based on more limited data. There is a risk that the data provided to the actuary for the valuation exercise is inaccurate and that these inaccuracies affect the actuarial figures in the accounts. Most of the data is provided to the actuary by South Yorkshire Pensions Authority, who administer the Pension Fund. **Our work to address this risk** We have reviewed the process used to submit payroll data to the Pension Fund and have found no issues to note. We have also tested the year-end submission process and other year-end controls, this has been done through consultation with the pension fund audit team. We have substantively agreed the total figures submitted to the actuary to the ledger with no issues to note. We have engaged with the Pension Fund Auditors to gain assurance over the pension figures. We reviewed the report received by the actuary and benchmarked the assumptions to determine whether these were appropriate, this work was performed by a KPMG pensions specialist. We also assessed the capabilities and independence of the actuary. We then reviewed that the accounts accurately reflect the actuary report.

Significant audit risks	Work performed
2. Valuation of Property, Plant and Equipment	**Why is this a risk?** At 31 March 2016 the Authority was reporting Property, Plant and Equipment with a value of £2,484m, representing the large majority of assets held on the Balance Sheet. It is the Authority's policy to revalue assets at a minimum every 5 years on a rolling basis, ensuring that the value assets are held on the balance sheet is not materially different to the current value at year end. There is an element of judgement exercised by the authority in determining whether assets require a valuation in year and also with regards to the assumptions made by the valuer in determining a value for the assets. Given the materiality in value and the judgement involved in determining the carrying amount we have determined a significant risk with regards to this account. **Our work to address this risk** We have reviewed the competency of the Valuers, by assessing the qualifications and approach used. We reviewed the instructions provided to the valuation team and considered the appropriateness of the valuation basis adopted. We have challenged the assumptions used by the Valuers by consultation with KPMG valuation specialists, we are still awaiting on responses to a number of these. We have agreed the basis of material impairments and revaluation losses through our testing of the revaluation process and agreement of accounting entries. We have tested the accuracy and completeness of the Authority's asset register through an asset verification exercise and the inspection of any significant new addition records. We have reviewed the capitalisation of major expenditure in the year and obtained an understanding of the classification of significant assets under construction. However, we have not yet been able to gain assurance that the assets are free from impairment as we have a number of outstanding queries on the information which we have received. We are still considering for some of the assumptions used why these are applicable to local circumstances, in particular the use of the revised Regional Adjustment Factor that has had a significant impact upon the value of Council Dwellings.
3. Prepayment of Pension	**Why is this a risk?** The council has made a significant pension prepayment during the year (£65m). This prepayment is intended to be made towards the revised liability for the three years from April 2017 to March 2020 as a result of the triennial valuation exercise. This transaction is unusual in nature, and involves large values and potentially complex accounting. **Our work to address this risk** We reviewed the legal advice obtained and the accounting transactions to ensure the treatment was materially accurate and in line with CIPFA guidance.

Significant audit risks	Work performed
4. New core financial system	**Why is this a risk?** The general ledger used by the Council has changed in year. There has been a phased implementation of the new Integra system with the existing OEO system still being used for a number of feeder systems e.g. Accounts Payable and Receivable Ledgers. There is a risk that account balances are incorrectly transferred from the old ledger to the new ledger incorrectly leading to a misstatement. There is also a risk that account balances are inaccurately coded due to an unfamiliarity with the new coding structure. **Our work to address this risk** We reconciled the closing balance on the old ledger to the opening balance on the new ledger to ensure no transactions were lost or duplicated in the transfer. Through our testing of activity during the year we have verified that the correct mapping has been used both for the transfer and subsequent activity. KPMG specialists reviewed the controls around the new system to ensure users are appropriately recognised. This included a review of the 'link' between the old OEO and other feeder systems to the new ledger to ensure data is transferred as required. We have not yet been able to complete our journals testing and, therefore, we have not yet fully verified that all journals have transferred appropriately at year end

Considerations required by professional standards

Fraud risk of revenue recognition

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

In our *External Audit Plan 2016/17* 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.

This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.

Management override of controls

Professional standards require us to communicate the fraud risk from management override of controls as significant because 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.

Our audit methodology incorporates the risk of management override as a default significant risk. We have not identified any specific additional risks of management override relating to this audit.

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.

There are no matters arising from this work that we need to bring to your attention.

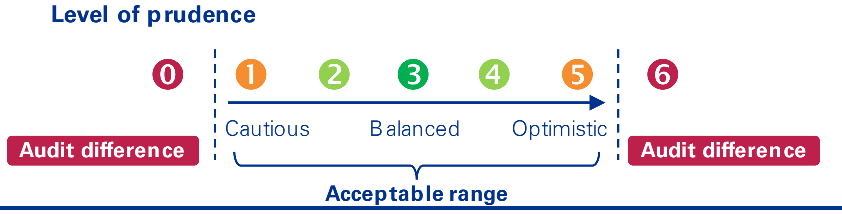
Other areas of audit focus

We identified one area of audit focus. These are not considered as significant risks as there are less likely to give rise to a material error. Nonetheless these are areas of importance where we would carry out substantive audit procedures to ensure that there is no risk of material misstatement.

Other areas of audit focus	Our work to address the areas
1. Disclosures associated with retrospective restatement of CIES, EFA and MiRS	**Background** During past years, CIPFA has been working with stakeholders to develop better accountability through the financial statements as part of its 'telling the whole story' project. The key objective of this project was to make Local Government accounts more understandable and transparent to the reader in terms of how the Council's are funded and how they use their funding to serve the local population. The outcome of this project resulted in two main changes in respect of the 2016-17 Local Government Accounting Code (Code) as follows: — Allowing local authorities to report on the same basis as they are organised by removing the requirement for the Service Reporting Code of Practice (SeRCOP) to be applied to the Comprehensive Income and Expenditure Statement (CIES); and — Introducing an Expenditure and Funding Analysis (EFA) which provides a direct reconciliation between the way local authorities are funded and prepare their budget and the CIES. This analysis is supported by a streamlined Movement in Reserves Statement (MiRS) and replaces the current segmental reporting note. The Authority was required to make a retrospective restatement of its CIES (cost of services) and the MiRS. New disclosure requirements and restatement of accounts require compliance with relevant guidance and correct application of applicable accounting standards. **What we have done** We have assessed how the Authority has actioned the revised disclosure requirements for the CIES, MiRS and the new EFA statement as required by the Code. We reconciled the new analysis to internal reporting made to the governance structures of the organisation. For the restatement, we have obtained an understanding of the methodology used to prepare the revised statements. We have also agreed figures disclosed to the' Authorities general ledger and found no issues to note. It was noted that the new disclosure had been restated to include internal recharges, this was in line with initial guidance received from CIPFA and treatment made across the sector. However, upon further consideration by the auditing firms, it was deemed that this treatment did not comply with the Code's definition of income and expenditure where internal recharges do not meet the definitions as they are not an inflow/outflow of economic benefit, therefore, these were now excluded. Our testing of this restatement also identified that Children, Young People and Families income and expenditure had both been overstated by £193m due to a formula error. This had also been picked up by the Council's own Quality Account processes in June but was not corrected prior to submitting the draft accounts. Further details can be seen at Appendix Three.

Judgements

We have considered the level of prudence within key judgements in your 2016/17 financial statements and accounting estimates. We have set out our view below across the following range of judgements.



Subjective areas	2016/17	2015/16	Commentary
Provisions	3	3	We have reviewed the assumptions and judgements which underpin the £43.5m of provisions highlighted in Note 27 of the accounts and we are satisfied that there is no risk of material misstatement in light of the assumptions used. The increase in year is due to disputes over the Waste Management Contract. Our testing identified that a £13m provision had been incorrectly classified, this has been reclassified within current liabilities to be displayed as a creditor.
NDR provisions	3	2	The NNDR provisions held at year end (£13.3m) are significantly less than our materiality level of £22m. We have reviewed the workings for the NNDR provisions and note that these have increased from the prior period based on the increased value of appeals and specific threats such as GP surgeries, Virgin Media and ATM appeals. The methodology behind this calculation is considered balanced and based accordingly upon recent historical trends and knowledge of current cases.
PPE: HRA assets	TBC	3	The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The Authority has utilised internal valuation experts to provide valuation estimates. We have reviewed the instructions provided and deem that the valuation exercise is in line with the instructions. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. We are still awaiting evidence of work performed locally that justifies the utilisation of the 41% Regional Adjustment Factor, we have raised a recommendation at Appendix One that all indices used should be reviewed for local circumstances to ensure they are appropriate for the Council.
PPE: Other Land and Buildings	TBC	3	As per page 7, we currently have insufficient evidence to conclude on the judgements made around this, as we have outstanding queries on the impairment review performed by the Council.
Pensions: Actuarial Assumptions	3	3	We reviewed the pensions assumptions made by your actuary to ensure they were in line with our expectations. We substantiated the figures to your actuary's report and confirm that the accounting treatment of these within the account was correct. We have no indications that a balanced judgement has not been made.
MSF Debtor Value	3	3	This debtor value is based upon the reversionary value of MSF assets that the Council has a reversionary interest in (estimated value at 2024). The assets have been revalued in year by an independent specialist and discounted to the present value from when the assets are expected to transfer to the Authority in 2024. We have reviewed the assumptions used and the competence and experience of the valuer, no issues have been noted.

Proposed opinion and audit differences

There is currently a number of outstanding queries and work to be done on the objections received, therefore, we cannot currently anticipate the opinion to be given.

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 (see Appendix 4 for more information on materiality) level for this year's audit was set at £22 million. Audit differences below £2 million are not considered significant.

Our audit identified a total of two significant audit differences, which we set out in Appendix 3. It is our understanding that these will be adjusted in the final version of the financial statements. These adjustments were in relation to the restatement of the CIES which had led to a formula error and the inclusion of internal recharges.

Amendments were also made to the Payroll Banding Disclosure as the initial workings provided by Capita did not agree back to source documentation.

Our testing identified the incorrect classification of a £13m provision which has been reclassified within current liabilities to be displayed as a creditor.

Our testing on property, plant and equipment identified an asset of £6.7m which had been incorrectly classified as a community asset.

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 Authority Accounting in the United Kingdom 2015/16 ('the Code'). We understand that the Authority will be addressing these where significant.

Annual governance statement

We have reviewed the Authority's 2016/17 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.

Narrative report

We have reviewed the Authority's 2016/17 narrative report and have confirmed that it is consistent with the financial statements and our understanding of the Authority.

Accounts production and audit process

Our audit standards (*ISA 260*) require us to communicate our views on the significant qualitative aspects of the Authority's accounting practices and financial reporting.

We also assessed the Authority's process for preparing the accounts and its support for an efficient audit. The efficient production of the financial statements and good-quality working papers are critical to meeting the tighter deadlines.

Introduction of KPMG Central

We introduced KPMG Central this year, which is a cloud-based document storage system to facilitate the secure transfer of large amounts of data between the Authority and the audit team. KPMG Central aligns to our Accounts Audit Protocol and allows the Authority's Closedown Team to efficiently share requested information. Although this tool was available the finance team reverted to using the previous electronic sharing facilities, moving forward to 2017/18 we will work with the Council to work on the most efficient way for sharing working papers.

Accounting practices and financial reporting

The Authority has recognised the additional pressures which the earlier closedown in 2017/18 will bring. We have been engaging with the Authority in the period leading up to the year end in order to proactively address issues as they emerge.

There were significant delays in the provision of some working papers, primarily in relation to the valuation and impairment of fixed assets, journals and payroll. This was primarily, although not exclusively, caused by understanding the new finance systems. The delays have meant that we spent additional time over and above that originally planned. We anticipate that the delays will have an impact on the final audit fee.

We consider the Authority's accounting practices appropriate.

Completeness of draft accounts

We received a complete set of draft accounts on 12 June 2017, which was prior to the statutory deadline of 30 June. This was later than originally planned due to delays largely caused by the introduction of a new General ledger within 2017/18.

Quality of supporting working papers

We issued our *Accounts Audit Protocol 2016/17* ("Prepared by Client" request) in January 2017 which outlines our documentation request. This helps the Authority to provide audit evidence in line with our expectations. We followed this up with a meeting with Management in January 2017 to discuss specific requirements of the document request list.

The quality of audit evidence with relation to the impairment and valuation of fixed assets was insuffcent. This is in addition to the delays previously highlighted. The quality of audit evidence initially provided in this area did not align to our expectations which were set out in our Accounts Audit Protocol 2016/17. This has caused significant delays and placed additional pressures on the audit.

We will seek to have a thorough debrief with the finance team to ascertain actions for next year in order to meet the earlier deadline.

Response to audit queries

Some initial queries have been complex to answer and have taken over six weeks to resolve, in particular, impairments, accounts payable and payroll. This has caused significant delays to the audit process. This was particularly acute when queries were fielded to Officers outside of the core finance team.

This raises concerns over the Authority's ability to meet the early statutory deadlines in 2017/18. We will work with the Council to perform a thorough debrief of the audit and actions to take forward.

Prior year recommendations

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

The Authority has fully implemented 3 out of the 6 recommendations in our ISA 260 Report 2015/16 and partially implemented the remaining 3 recommendations. The outstanding recommendations relate to regular completion of a reconciliation for Housing Benefits and the development of IT assurance and an IT strategy.

Appendix 2 provides further details.

Controls over key financial systems

We have tested controls as part of our focus on significant audit risks and other parts of your key financial systems on which we rely as part of our audit. The strength of the control framework informs the substantive testing we complete during our final accounts visit.

Below we have highlighted exceptions in relation to controls:

Journals

— There are no application level controls which will ensure segregation of duties in the Journal process, meaning that any employee who has ledger access can post any journals without further authorisation. This means there is no review to ensure that journals posted are appropriate. We note that this is in line with previous practice at the Authority and was considered as part of the implementation of the new General Ledger.
This change in practice was raised in the 2013/14 ISA 260 memo, and discussed and agreed at the September 2014 Audit Committee, for the year in which it was implemented. The view was taken that the extra resources needed to authorise every journal could not continue to be justified. We have raised a recommendation that this decision should be revisited in light of implementation of the new system.

Housing Benefits

— There had only been one reconciliation performed during the year, as well as a reconciliation at year end. Due to the limited reconciliations completed we have concluded that these controls are not designed and implemented effectively. This relates to a prior period recommendation raised we have marked as partially complete, as procedures have now improved, see further details at Appendix 1.

Property, Plant and Equipment

— Our testing identified that there is an inadequate amount of evidence to support the impairment review performed by the Council.

Further detail and associated recommendations can be found in Appendix 1.

Completion

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Authority's 2016/17 financial statements.

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

Once we have finalised our opinions and have responded to the objections received 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 and for the year ending 31 March 2017, 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.

We have provided a detailed declaration in Appendix 5 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 Responsible Finance Officer for presentation to the Audit and Standards Committee. We require a signed copy of your management representations before we issue our audit opinion.

We have requested the following specific representations:

— That In line with IAS 36, the Council can confirm they have considered whether any of the assets should be impaired at the reporting date. That the Authority can confirm that there are no circumstances of which the Authority is aware which indicate that a material change in the value of the land and building assets has taken place during 2016/17, save for those indicated by the valuations provided by the Internal Valuation team as at 31 March 2017.

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 others 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 Authority's 2016/7 financial statements.

Section two

Value for money

Our 2016/17 VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Subject to the outcome of any investigations with regards to objections raised, we have concluded that the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

VFM conclusion

The Local Audit and Accountability Act 2014 requires auditors of local government bodies to be satisfied that the authority 'has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources'.

This is supported by the Code of Audit Practice, published by the NAO in April 2015, which requires auditors to 'take into account their knowledge of the relevant local sector as a whole, and the audited body specifically, to identify any risks that, in the auditor's judgement, have the potential to cause the auditor to reach an inappropriate conclusion on the audited body's arrangements.'

Our VFM conclusion considers whether the Authority had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We follow a risk based approach to target audit effort on the areas of greatest audit risk.

1 Identification of significant VFM risks (if any)

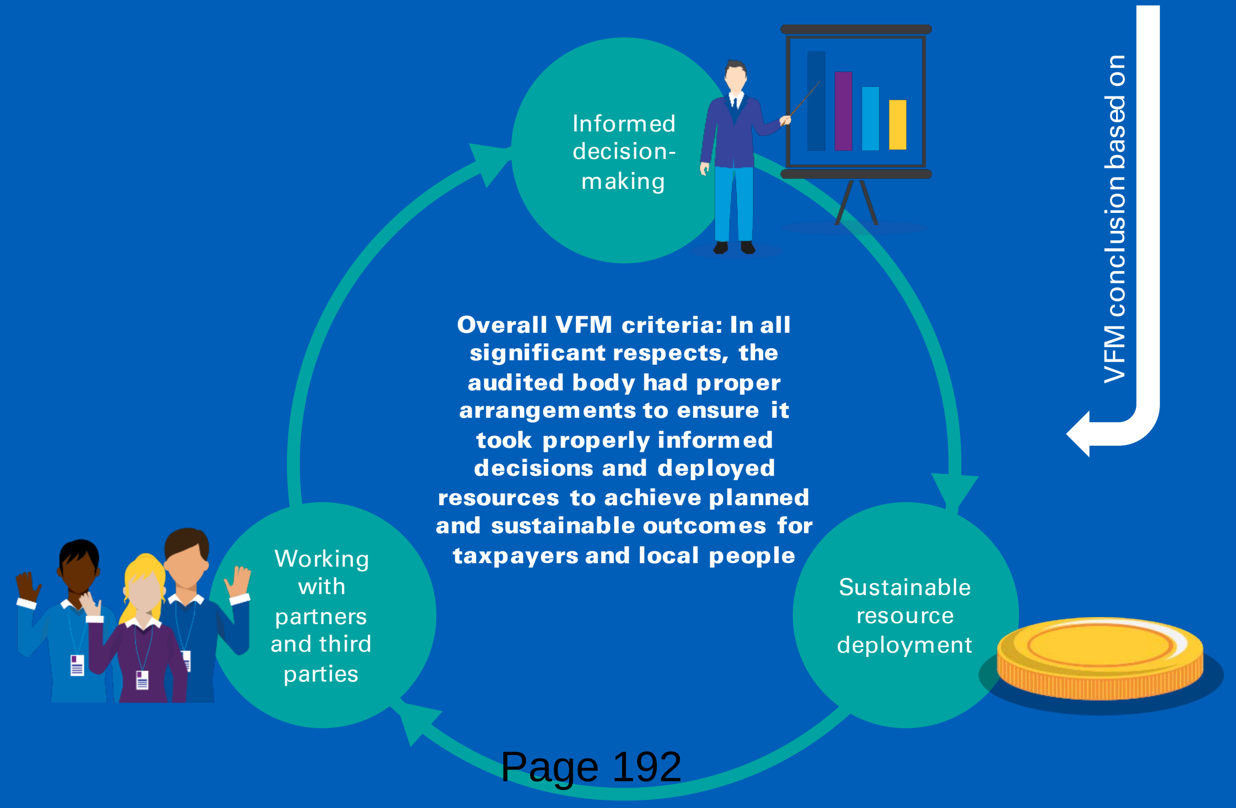
- VFM audit risk assessment
- Financial statements and other audit work

2 Continually re-assess potential VFM risks

- Assessment of work by other review agencies
- Specific local risk-based work

3 VFM conclusion

- **Conclude on arrangements to secure VFM**



The table below summarises our assessment of the individual VFM risk identified against the three sub-criteria. This directly feeds into the overall VFM criteria and our value for money opinion.

VFM assessment summary

VFM risk	Informed decision-making	Sustainable resource deployment	Working with partners and third parties
1. Financial Resilience with a particular focus on the performance of Social Care.	✓	✓	✓

In consideration of the above, we have concluded that in 2016/17, the Authority has made proper arrangements to ensure it took properly-informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

Further details on the work done and our assessment are provided on the following pages.

Significant VFM risks

We have identified one significant VFM risk, as communicated to you in our *2016/17 External Audit Plan*. We are satisfied that external or internal scrutiny provides sufficient assurance that the Authority's current arrangements in relation to these risk areas are adequate.

Significant VFM risks	Work performed
1. Financial Resilience with a particular focus on the performance of Social Care.	**Why is this a risk?** There is a general risk around the financial resilience of the Council. In particular focusing around social care and arrangements of financial management. During the financial year Internal audit have done various reviews on Social Care and opinions have stated that the risk of the activity not achieving its objectives is medium –high. We will consider whether these recommendations relate to front line services or financial resilience. We note also that as at month 10, the Children, Young People and Families portfolio was forecast to overspend on budget by circa £6.5m and the Communities portfolio by circa £6m. This is due to a number of service pressures, including an increase in the number of looked after children, Special Education Needs referrals and Learning Disability Services. The combination of a pressured service, a forecast overspend and control issues highlighted by internal audit has meant we have assessed an increased risk that value for money is not achieved. This is relevant to the informed decision making and sustainable resource deployment sub-criteria of the VFM conclusion. **Summary of our work** Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for social care services. We noted that regular reports continued to go to Cabinet highlighting the progress being made in terms of budget monitoring and cost controls. We noted that this work continues to be ongoing with the portfolio continually striving to improve. We also noted from budget and the final outturn reports that the position was reported upon throughout the year and was understood. The final overspend of £6.3m in the Children, Young People and Families Portfolio and £6.6m in the Communities portfolio was forecast and understood. As a result we have gained assurance that the position with regards to the overspends has been transparently reported, giving us assurance with regards to the 'informed decision making' criteria. We were satisfied from review and discussion of internal processes that there was relevant monitoring and actions with regards to the performance of the portfolio. We were satisfied that the level of internal scrutiny was appropriate to effectively manage the identified risk. We have also reviewed the recovery and change programmes in place which further incorporate how the Council should continue to work with the CCG more closely. These plans give us assurance that the Council continues to review the pressures and will redesign services to meet the demand pressures, thus demonstrating that sustainable resource deployment has taken place.

Appendices

Key issues and recommendations

Our audit work on the Authority's 2016/17 financial statements have identified a number of issues. We have listed these issues in this appendix together with our recommendations which we have agreed with Management. We have also included Management's responses to these recommendations.

The Authority should closely monitor progress in addressing the risks, including the implementation of our recommendations. We will formally follow up these recommendations next year.

Each issue and recommendation have been given a priority rating, which is explained below.

High priority — 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.

Medium priority — 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.

Low priority — Issues that would, if corrected, improve internal control in general but are not vital to the overall system. These are generally issues of good practice that we feel would benefit if introduced.

The following is a summary of the issues and recommendations raised in the year 2016/17.

2016/17 recommendations summary	
Priority	**Number of recommendations raised**
High	3
Medium	4
Low	2
Total	**9**

High priority

1. Impairment Review

The Council operates a five year rolling programme of valuations and thus there are a number of properties which have not been valued for a number of years, despite the Council seeing large revaluation decreases over the last two years.

The Council has inadequate information to demonstrate that a thorough impairment review has been performed to demonstrate that these assets are not materially misstated.

Recommendation

The Council needs to ensure that it has an effective control for monitoring possible impairment of its assets and that this is fully documented. This should include developing a revaluation policy, in line with accounting standards, that considers not just the assets appropriate for revaluation but also the remaining assets for signs of impairment. This should be done by as a desktop review of the estates and through a review of corporate decision making, looking at any future changes to be made to the assets.

Management Response

Partially accepted

The Council continues to conduct a five year programme of valuations, in accordance with the guidance set out in the CIPFA Code of Accounting Practice. We also review all those assets not valued at the balance sheet date for signs of impairment. It should be noted that this programme valued 72% by value of our fixed assets that require valuation as at 31 March 2017, and a further 11% at March 2016 (see accounts note 17 p67). Including infrastructure assets which are not held at current valuation only £322m out of £2.811bn (11%) of our fixed assets have a valuation more than one year old, significantly reducing the risk of the Balance sheet figure being materially mis-stated. We therefore consider that we have an accounting policy in line with accounting standards, but we do accept that our documentation of our approach could be updated to reflect the increasing requirements that have been applied by the auditors this year.

Owner

Acquisitions and Disposals Manager – Property Services

Deadline

March 2018

High priority

2. Rolling Programme of Valuations

The Council has not provided the audit team with adequate information available to demonstrate that the assets valued in year are proportionate to the assets held. Currently the revaluations are done solely a result of a rotational revaluation policy or significant additions rather than informed by estates information or corporate decision making.

Without a detailed analysis of the assets held and those to be revalued the Council can not be assured that it is revaluing a reflective proportion of assets each year.

Recommendation

The Council should look to review the rolling programme of valuations to ensure there is appropriate rationale for the properties to be valued each year and that this is reflective of the full asset base.

Management Response

We believe our rolling programme does reflect our asset base, and provides an adequate basis to provide reasonable assurance that our assets are fairly stated. We will revise our documentation to demonstrate this better, and reflect the increasing audit emphasis on this area.

Owner

Acquisitions and Disposals Manager – Property Services

Deadline

March 2018

High priority

3. Independence of Valuer

As the valuer is now in house, their independence needs to be clearly demonstrated.

During the current year the valuation team signed off a report which had included figures in provided by finance, without a detailed review of such figures.

Furthermore, the instructions do not make clear the obligations and responsibilities of both the valuation team and others in the Council.

Recommendation

The Council needs to ensure that there are appropriate measures in place to ensure that the valuers remain independent and that these are documented through clear, detailed instructions.

The valuation team should not include figures provided for other teams unless they have verified all calculations and assumptions used.

Management Response

The valuation team were taken back in-house from April 2016. We will look to ensure that our instructions reflect this change.

Owner

Head of Strategic Finance

Deadline

March 2018

Medium priority

4. Preparation and review of audit working papers

Our *Accounts Audit Protocol*, issued in January 2017 and discussed with the key finance officers, sets out our working paper requirements for the audit. During our final accounts visit, a number of delays were seen in relation to the queries raised. This was especially the case for areas outside of the finance team, for example, valuation and payroll.

We have not yet received a journal listing with which we can be satisfied with the completeness, this is due to finance understanding of the new system. However, the team should seek to ensure that all reports are accessible prior to our audit commencing.

The impact of this has been significant delays to the audit and incurred additional work.

Recommendation

The Authority should ensure that all key closedown staff receive and review the *Accounts Audit Protocol* prior to producing working papers for the audit and seek to use the Share Point tool provided by KPMG.

The finance team and KPMG will have a thorough debrief of the audit to identify how this can be better managed going forwards.

Management Response

The Financial Accounts team will continue to make improvements to the electronic working papers made available to our external auditors and are keen to work closely with them to identify how we can make further improvements going forward. Officers will explore further improvements when communicating and distributing the external auditor's Accounts and Audit Protocol with third parties outside of the core Financial Accounts team.

Owner

Head of Strategic Finance

Deadline

March 2018

Priority	Issue and recommendation	Management response
Medium priority	**5. Local Review of Indices** The Authority continues its use of the beacon methodology in line with the DCLG's *Stock Valuation for Resource Accounting* published in November 2016. The resulting increase is in line with guidance provided by DCLG and the 41% Regional Adjustment Factor deemed appropriate for the Yorkshire and Humber region. Whilst the adjustment factor had been provided by an external expert the Council had not assessed that this was appropriate for them to use. There is a risk that assumptions and indices used are not effectively challenged and thus not appropriate for local use. **Recommendation** The Council should ensure that all external assumptions and indices used are critically analysed to ensure they are consistent and applicable locally to Sheffield and the relevant functions or assets held.	**Management Response** The Financial Accounts team will ensure going forward that external assumptions and indices applicable to Sheffield are analysed and challenged and that such reviews are documented and accessible at the commencement of the audit. **Owner** Head of Strategic Finance **Deadline** March 2018
Medium priority	**6. Revoke Leaver IT Access** Within the Integra system there were found to be 39 active accounts assigned to individuals who had left employment with the Council. In many cases this was due to backlogs within the HR / FSSG process but we noted two cases where accounts for individuals who had left the council in 2009 and 2013 had incorrectly been migrated from OEO. We confirmed that none of these accounts had been used after the stated leaving date **Recommendation** The Council should implement a periodic review of all user access to systems and confirm this remains appropriate for the individuals role.	**Management Response** We have now deleted these accounts. We will consider your suggestion to undertake a reconciliation of current employees to the Integra users, but at the present time this would be a huge task to undertake for the team. The FSSG team have said however, that there is potential for them to carry out this task once phases 2 and 3 have gone live and the resource is available. **Owner** Head of Strategic Finance **Deadline** March 2018
Medium priority	**7. System Mapping Changes** Our testing of the mapping process from OEO to Integra identified that the same individual can make changes to the OEO / Integra mappings table within GL Link /AIM and apply them to the live system without requirement of review or approval. Furthermore, it is not possible to confirm which user made changes to mapping and there are no periodic reviews of mapping changes to confirm appropriateness. **Recommendation** The Council should review whether approval of mapping changes should be sought prior to being applied to the live system or a periodic retrospective review to confirm any changes made were appropriate.	**Management Response** The monthly reconciliations on budget monitoring and balance sheet were a back up to the mapping from OEO to Integra, during implementation to ensure that if there were any missing transactions then this monthly check would allow finance teams / services to check and challenge the actuals that had been posted. This recommendation will no longer be relevant once all phases have been completed. This recommendation will no longer be relevant once all phases have been completed.

Low priority

8. Password Configuration

Password configuration is not aligned to good practice across the Council's IT systems, specifically there is no requirement for passwords to be changed periodically and multiple incorrect logins will not cause accounts to be locked.

Recommendation

The Council should consider updating its password configuration of IT systems to align with best practice.

Management Response

The password configuration is an issue within the Integra finance system and is currently being investigated by Capita Integration Business Solutions (CIBS). Officers will continue to investigate this issue to ensure a solution is identified.

Owner

Head of Strategic Finance

Deadline

March 2018

Low priority

9. Journal Controls

There are no application level controls which will ensure segregation of duties in the Journal process, meaning that any employee who has ledger access can post any journals without further authorisation. This means there is no review to ensure that journals posted are appropriate.

This diminution of control has been previously reported and accepted by the Audit Committee in 2014.

Recommendation

Whilst it is acknowledged that the Council uses its budgetary control to gain assurance over the journals posted the new ledger provides them with the opportunity to review access and whether there needs to be an additional review of journals with certain characteristics.

Management Response

This change in control was a deliberate choice from 2013/14 on cost grounds, i.e. we accept the diminution of controls of not having a second officer authorise journals separately to the preparer. This was reported to the Audit Committee in September 2014, who endorsed this approach. We recommend no change in processes is adopted.

Follow-up of prior year recommendations

In the previous year, we raised six recommendations which we reported in our *External Audit Report 2015/16 (ISA 260)*. The Authority has not implemented all of the recommendations. We re-iterate the importance of the outstanding recommendations and recommend that these are implemented by the Authority.

We have used the same rating system as explained in Appendix 1.

Each recommendation is assessed during our 2016/17 work, and we have obtained the recommendation's status to date. We have also obtained Management's assessment of each outstanding recommendation.

Below is a summary of the prior year's recommendations.

2015/16 recommendations status summary

Priority	Number raised	Number implemented / superseded	Number outstanding
High	1	0	**1**
Medium	3	2	**1**
Low	2	1	**1**
Total	**6**	**3**	**3**

High priority

1. Housing Benefits Reconciliation (Private Housing)

Housing benefits transactions are posted to the OEO ledger system by Capita staff reflecting the source data from the Academy Housing Benefits system. Testing found that regular documented reconciliations are not performed by Authority officers to ensure that the ledger reflects the source data from Academy. Whilst officers do carry out adhoc reconciliations utilising a spreadsheet provided by Capita colleagues it was noted that this spreadsheet does not tie back to the data held on the Academy system due to a number of adjustments that are subsequently posted. Whilst satisfied that this has not resulted in a material misstatement, and any differences between the two systems may well be justified, without a reconciliation process we are unable to verify the reasonableness of any adjustments posted.

Recommendation

Roles and responsibilities with regards to the performance of reconciliations should be clarified between Capita and the Authority's own team. This should include an agreed timeframe and method for recording and adjusting transactions that might impact upon the reconciliation.

Management Response

The Revenue and Benefits service is managed by Capita on behalf of the Council. Their duties include submitting monthly reconciliations for the Academy system to the Council, which are then checked to the financial ledger by Finance Business Partner. Whilst there is no evidence of significant discrepancies, officers will work with Capita to clarify the roles and responsibilities and ensure that the process is complete and formalised for all stages of reconciliation (including submission of source data to support the monthly reconciliations), without duplicating the effort of the either party.

Responsible Officer

Assistant Director –Finance Business Partner (Resources)

Due Date

December 2016

KPMG's 2017 assessment

Partially implemented

We have only been able to test one reconciliation during the year and one at year end. Therefore, due to the limited reconciliations done this is not designed and implemented effectively.

Management's 2017 response

Agreed. This recommendation was received in September 2016, and since then we have completed reconciliations for quarter 3 and the year-end. From 2017/18 we are reconciling monthly, which should fully address this recommendation.

Medium priority

2. IT System Assurance

The Authority has a number of IT systems in place that have an impact upon the financial information reported. These systems include HR, payroll, housing benefits, council tax, NNDR and fixed assets.

The Authority has a number of operating models in place, depending upon the operational area in question. For instance, some services are wholly outsourced, some areas the service might be outsourced but the related IT system is managed internally, as well as other variations in operation.

Our audit work around IT systems in the year found that for a number of wholly outsourced systems a business decision had been taken not to commission ISAE3402 reports to offer assurances with regards to the IT control environment.

We also noted that for the systems we were to place reliance upon these had not been included in the year as part of the scope of internal audit's work.

As a result of all of the above, we noted that the Council does not have a clearly documented outline of which systems exist, who manages them and has overall service control, and how they gain assurance that the data inputs and outputs from the system are reliable.

Without this clear outline there is a risk that weaknesses in control and operations are not identified and/or managed appropriately leading to a reduction in data integrity.

Recommendation

The Authority should seek to develop an IT assurance framework that clearly highlights the ownership of a system, responsible officers and how assurance is gained regarding the integrity of the data produced.

Management Response

Corporately managed systems, which make up the majority of SCC's systems catalogue, are known and documented, though we agree that we could improve this and in that respect we have already started work aimed at developing a more complete enterprise architecture to include business systems wherever they are managed currently.

In addition, the council has recently approved a SCC-wide project to rationalise applications and put in place new governance that will enable a corporate view of systems to be held and managed, in part to prevent historic instances of future needless duplication.

As a part of our objective of having a complete enterprise architecture documented, we will adopt a consistent approach across all parts of the authority, to documenting systems and ensuring the appropriate assurance, controls and governance are in place. This will take the form initially of a SCC systems catalogue but will become a core resource to feed into work on the EA as that develops.

Given the current federated approach, collating this information and putting in place effective governance is likely to require input from many different areas, hence the timescales identified.

Responsible Officer

Assistant Director –ICT Service Delivery

Original Deadline

March 2017 (for a complete SCC systems catalogue, a review of systems in terms of controls, put in place SCC governance of ICT systems)

KPMG's 2017 assessment

Partially implemented

The Council has developed an Application catalogue which provides details of all applications and the responsible owner.

However, there is still no formal IT assurance framework in place which details how assurance is gained.

Management's 2017 response

The Council has developed an Application catalogue which provides details of all applications and the responsible owner. However, there is still no formal IT assurance framework in place which details how assurance is gained. BCIS are exploring options for commissioning ISAE 3402 reports on all system managed or partially managed by outsource providers.

Responsible Officer

Mike Weston

Delivery Date

31 December 2017

Low priority

3. IT Strategy

We noted that the Council does not currently have an IT strategy in place.

Without an IT strategy there is a risk that systems are weakened and the full benefits from systems that are used are not utilised. There is also a risk that systems are developed on an ad hoc basis that do not fit into a wider plan. We understand that the Council has recently drafted a Digital Strategy from which an IT strategy will be developed.

Recommendation

The Council should prioritise the development of an IT strategy in order to mitigate the risks identified above.

Management Response

The council has been developing a digital strategy (DS), which would set out a range of objectives that would then in turn lead to the development of new IT and IT Systems Strategies. Development of the DS was delayed due to limited engagement at various times but the principles agreed by the DS Board have been incorporated into key programmes and decisions on IT strategic plans.

There has been a Corporate Systems Strategy in place for some time, expected to be replaced or renewed as a result of the DS, but which recognises the federated approach outlined in the comments for Item 4. Individual portfolios have their own IT Systems Strategies, with limited visibility at a corporate level historically. Portfolios have previously indicated a wish to change this and the action above around a corporate governance for IT systems will enable us to address this in a more coherent and consistent manner.

In relation to the recommendation to require our partners to hold and maintain ISA3402 for relevant systems, we will review that as part of the action below for existing systems, and also consider whether we should ensure we include it as a standard requirement for all future relevant systems procurement decisions.

Action: Following the approval of the Digital Strategy (expected early Autumn 2016), develop an overarching SCC IT Strategy, encompassing also an IT Systems Strategy. Use the governance identified in Item 4 to provide an overview of the implementation of the IT Systems Strategy.

Responsible Officer

Assistant Director –ICT Service Delivery

Original Deadline

January 2017 (assuming DS is approved in the timescales expected

KPMG's 2017 assessment

Partially implemented

A draft IT Strategy is in development and is due to be published to Members at the end of September.

Management's 2017 response

A draft IT Strategy is in development and is due to be published to Members at the end of September.

Responsible Officer

Mike Weston

Delivery Date

30 September 2017

Appendix 3

Audit differences

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 and Standards 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.

A number of minor amendments focused on presentational improvements have also been made to the 2016/17 draft financial statements. The Finance team is committed to continuous improvement in the quality of the financial statements submitted for audit in future years.

Adjusted audit differences

The following table sets out the significant audit differences identified by our audit of Sheffield City Council's financial statements for the year ended 31 March 2017.

Table 1: Adjusted audit differences (£'000)			
No.	**Adjustments made**		**Basis of audit difference**
1	Dr Children, Young People and Families Gross Income £193,020	Dr Children, Young People and Families Gross Expenditure £193,020	Children, Young People and Families income and expenditure had both been overstated by £193m due to a formula error.
2	Dr CIES £118,000	Cr CIES £118,000	It was noted that the new disclosure had been restated to include internal recharges, this was in line with initial guidance received from CIPFA and treatment made across the sector. However, this treatment did not comply with the Code's definition of income and expenditure where internal recharges do not meet the definitions as they are not an inflow/outflow of economic benefit, therefore, these were now excluded.
3	Dr Provision £13,000	Cr Creditors £13,000	On review of the provisions it was noted that the provision in relation to a Waste Management Contract had been treated inconsistently within the accounts; part of the transaction had been treated as provision and the other part as a creditor. A review of the transaction determined that this should be classified as a creditor within the accounts and the Council as made this adjustment within Non Current Liabilities.

KPMG

Appendix 3

Audit differences

Additional disclosures

The following table sets out the additional disclosures required identified by our audit of the financial statements for the year ended 31 March 2017.

Table 2: Adjusted disclosures

No.	Area of Accounts	Amendments
1	Post Balance Sheet Event	A Post balance sheet disclosure is required to acknowledge the results of the Council's testing of its cladding following the incident at Grenfell Tower.
2	Post Balance Sheet Event	Since signing the accounts settlement agreements have been reached with regarded disputed contracts, this has led to an £18m payment. This should be disclosed as a Post Balance Sheet Event.
3	Trading Operations	The note to the accounts did not tie through to the general ledger and has been updated to reflect this.
4	Officers' Remuneration	Bandings were incorrect as data used for salary of Teachers from CAPITA was found to be incorrect when tested back to source data. This Note has been restated using new data from CAPITA and is now fairly presented. Individuals that previously had incorrect salaries in the CAPITA data are now correct.
5	Prior Year Debtors	Our testing identified that in the prior year £7.4m had been incorrectly classified as Debtors with Central Government bodies and this has been reclassified to debtors with other entities and individuals.
6	Community Assets	We queried the correct classification of community assets and identified one asset that had no charitable status or restrictions on disposal so did not meet the definition. Hence the asset was required to be reclassified from community assets to operational land and buildings, the total adjustment was £6,9 m.
7	Audit Fee Disclosure	The note to the accounts did not agree to the Council's supporting working paper and had excluded the Subcontractors Controls Assurance fee.

Unadjusted audit differences

We have not identified any unadjusted audit differences.

Materiality and reporting of audit differences

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 used the same planning materiality reported in our External Audit Plan 2016/17, presented to you in April 2017.

Materiality for the Authority's accounts was set at £22 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit and Standards 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 and Standards 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 Authority, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1 million for the Authority.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit Committee to assist it in fulfilling its governance responsibilities.

Declaration of independence and objectivity

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

> *"The auditor should carry out their work with integrity, objectivity and independence, and in accordance with the ethical framework applicable to auditors, including the ethical standards for auditors set by the Financial Reporting Council, and any additional requirements set out by the auditor's recognised supervisory body, or any other body charged with oversight of the auditor's independence. The auditor should be, and should be seen to be, impartial and independent. Accordingly, the auditor should not carry out any other work for an audited body if that work would impair their independence in carrying out any of their statutory duties, or might reasonably be perceived as doing so."*

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 and Standards 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 LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Audit Partners and staff annually confirm their compliance with our Ethics and Independence Manual including in particular that they have no prohibited shareholdings.

Our Ethics and Independence Manual is fully consistent with the requirements of the Ethical Standards issued by the UK Auditing Practices Board. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values, Communications, Internal accountability, Risk management and Independent reviews.

We would be happy to discuss any of these aspects of our procedures in more detail.

Auditor declaration

In relation to the audit of the financial statements of Sheffield City Council for the financial year ending 31 March 2017, 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 6

Audit fees

Audit fees

As communicated to you in our External Audit Plan 2016/17, our scale fee for the audit is £186,998 plus VAT *(£186,998 in 2016/17)*, which is the same as the prior year.

An additional fee of £3,000 plus VAT was agreed with management and the PSAA due to additional IT systems audit work that was required to be undertaken in year. This work was required with regards to IT systems where we were unable to rely upon any assurance from other sources. Work was carried out over the general IT controls in place across these systems to give us assurance that data produced from the systems was both secure and could be relied upon for the purposes of our audit.

Further additional fee of £6,000 plus VAT was agreed with management and the PSAA in relation to IT controls work to review the data migration and the controls in the new finance system. This was to enable us to place assurance that data produced from the systems had transferred correctly and was both secure and could be relied upon for the purposes of our audit.

However, we propose to seek additional fee due to delays in receipt of an adequate impairment review performed by the Council and delays with the receipt of a complete Journal listing, currently these items have not yet been received by KPMG in order for us to finalise our opinion. The amount of additional fee is subject to agreement once work has been completed.

Our work on the certification of Housing Benefits (BEN01) is not yet complete. The planned scale fee for this is £19,840 plus VAT. Planned fees for other grants and claims which do not fall under the PSAA arrangements is £12,000 plus VAT (£12,000 in 2016/17), see further details below.

PSAA fee table

Component of audit	2016/17 *(actual fee)* £	2015/16 *(actual fee)* £
Accounts opinion and use of resources work		
PSAA scale fee set in [2014/15]	186,998	186,998
Additional IT work (note 1)	9,000	6,000
Subtotal	**195,995**	**192,995**
Housing benefits (BEN01) certification work		
PSAA scale fee set	19,840	19,840
Total fee for the Authority agreed by the PSAA	**215,835**	**212,835**

All fees are quoted exclusive of VAT.

Note 1: Additional IT work

Additional fee was due in the year due to additional IT controls work required around the implementation of the new Integra finance system. Furthermore, as in the previous period, due to the absence of service auditor reports from some outsourced providers a small additional fee for IT work around individual feeder systems (e.g. Housing Benefits) was also incurred.

Non-PSAA fees

Component of audit	2016/17 *(actual fee)* £	2015/16 *(actual fee)* £
Grant Certification Work		
Pooling Capital Receipt Return	2,750	2,750
Teachers Pension's Agency Return	3,250	3,250
SFA Subcontractor Controls Assurance	6,000	6,000
Total fee for the Authority outside of the PSAA contract	**12,000**	**12,000**

All fees are quoted exclusive of VAT.

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