

Sheffield City Council Audit results report

Year ended 31 March 2019

17 July 2019

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

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17 July 2019

Sheffield City Council
Town Hall
Pinstone Street
Sheffield

Dear Audit & Standards Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit & Standards Committee . This report summarises our preliminary audit conclusion in relation to the audit of Sheffield City Council for 2018/19.

We are currently in the process of undertaking our audit of Sheffield City Council for the year ended 31 March 2019.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3, before the statutory deadline of 31 July 2019. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit & Standards Committee meeting on 25 July 2019.

Yours faithfully

Stephen Clark

Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature. This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01

Executive Summary

Scope update

In our Audit Planning Report presented at the 18 April 2019 Audit & Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

▶ **Changes in materiality:**

We updated our planning materiality assessment using the draft results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £24.5m (Audit Planning Report – £24.9m). This results in updated performance materiality, at 50% of overall materiality, of £12.2m (Audit Planning Report – £12.4m), and a threshold for reporting misstatements of £1.2m. The basis of our assessment has remained consistent with that reported in our Audit Planning Report.

▶ **Change in scope:**

At planning we also reported consideration of the existence and cut off of income/debtor balances for any management bias when considering our perceived fraud risks. We reviewed our risk assessment on receipt of the draft financial statements and concluded that this was no longer a perceived risk given the nature of the Council's income streams and its historical performance and medium term financial strategy.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.

Status of the audit

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At the time of writing this report we are in the process of completing our audit of the Council's financial statements for the year ended 31 March 2019. We still have a number of areas to complete and are working in partnership with management to clear issues and outstanding information as quickly as possible. Subject to satisfactory completion of the following key outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise. The key areas for completion are as follows:

- ▶ Conclusion of our work on the valuation of property, plant and equipment and investment properties, including management's assessment of the categorisation and treatment of investment properties and surplus assets.
- ▶ Receipt of the IAS 19 reporting from Deloitte and review of the revised pensions adjustments.
- ▶ Review of the cash flow statements.
- ▶ Receipt and review of outstanding evidence for samples, including those for expenditure.
- ▶ Receipt of managements impact assessment for IFRS 15.
- ▶ Final reporting on the treatment of PFI schemes.
- ▶ Finalisation of our review over significant contracts, minutes and related parties.
- ▶ Finalisation of our work on journals.
- ▶ Completion of review Procedures.
- ▶ Review of the final version of the financial statements.
- ▶ Completion of subsequent events review.
- ▶ Receipt of the signed management representation letter.
- ▶ Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Executive Summary

Audit differences

At the time of writing this report we have identified 3 unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit & Standards Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £0.7m. We agree with management's assessment that the impact is not material.

We have also identified material audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Objections

We have received no objections to the 2018/19 accounts from members of the public.

However, objections raised in 2016/17 under the previous auditor are still outstanding. Until these are resolved and the audit certificates for 2016/17 and 2017/18 are issues we are unable to issue our audit certificate for 2018/19.

Areas of audit focus

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

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

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

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

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls. During the audit we identified one observation and improvement recommendation which we consider the need to bring to your attention which is set out in section 7.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified a significant in relation to securing financial resilience which has been detailed in section 5.

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

Other reporting issues

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the time of writing, we had only just received the Group Audit instructions from the NAO. We will complete this work in August ahead of the deadline of 13 September 2019.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error (fraud risk)

What is the risk?

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

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

We have assessed journal amendments, accounting estimates and unusual transactions as the areas most open to manipulation. We consider the specific risks to be focussed predominantly on the same areas we have set out in the significant risk of expenditure recognition (being the Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions). We have reported on these separately and have not repeated that information here.

What judgements are we focused on?

We have considered the balances included in the Council's financial statements that are the most susceptible to judgement or estimation techniques. The key estimates are considered to be the NNDR appeals provision, the valuation of Property, Plant and Equipment and the valuation of pension liabilities.

Due to the significance of PPE and pension valuations on the financial statements we have included them as a significant risk and higher inherent risk respectively in our audit strategy. Our work on the NNDR appeals provision has been captured within the Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions risk. These have been reported separately within this report and therefore that information has not been repeated here. Given that the impact of valuation and measurement of property, plant and equipment and pension liabilities do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting.

What did we do?

As set out in our audit plan we confirm that we have performed the following procedures:

- ▶ We tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- ▶ We reviewed accounting estimates for evidence of management bias; and
- ▶ We evaluated the business rationale for any significant unusual transactions.

We have set out the procedures we have undertaken in relation to the above, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

What are our conclusions?

Based on the work performed to date:

- ▶ We have not identified any material weaknesses in controls or evidence of material management override.
- ▶ We have not identified any instances of inappropriate judgements being applied.
- ▶ We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.



Significant risk



Further details on procedures/work performed

Journal entry testing

We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements. We obtained a full list of journals posted to the general ledger during the year and using our data analytics tool confirmed the completeness of the population and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation. Whilst we are concluding our work in this area, we have not identified any issues to date.

Accounting estimates

Accounting estimates relating to the valuation of provisions, Property, Plant and Equipment and pension liabilities have been set out elsewhere in this report.

We evaluated the remainder of the Council's estimates, including accruals, deferred liabilities, bad debt provision and depreciation, as low risk of material misstatement. At the time of writing this report, no significant issues were noted in our work in these areas.

Other procedures - As set out in our audit plan we confirm that we have also performed the following supplementary procedures to gain additional assurances management override of control/misstatements due to fraud or error:

- ▶ Inquiring of management about risks of fraud and the controls put in place to address those risks and understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considering the effectiveness of management's controls designed to address the risk of fraud, identifying fraud risks during the planning stages and determining an appropriate strategy to address those identified risks of fraud.
- ▶ Considering the existence of significant unusual transactions during the year, and performing review and testing as required - none were identified.

We have no matters to report in relation to the above.



Significant risk

Inappropriate capitalisation of expenditure, completeness of liabilities and valuation of provisions (fraud risk)

What is the risk?

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

The Council has overcome significant budget and savings challenges over the years and in 2018/19 the Council incurred an overspend £4.6m. As the Council is more focussed on its financial position over the medium term we do not consider there to be a heightened risk for the Council's standard income and expenditure streams except for the inappropriate capitalisation of expenditure that should have been charged to the general fund, the completeness (understatement) of liabilities (namely accruals), and the valuation of provisions.

At planning we also reported consideration of the overstatement of income/debtor balances and revenue cut off. We reviewed our risk assessment on receipt of the draft financial statements and concluded that this was no longer a perceived fraud risk.

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What judgements are we focused on?

In considering this risk we have focussed on:

Management's judgement in capitalising expenditure as PPE. The Council has a number of large capital programmes and therefore judgement can be exercised in the allocation of costs between revenue expenditure and capital expenditure.

- ▶ The completeness of liabilities at the year end with a focus on any judgements management have made in relation to the expenditure which spans the financial year end.
- ▶ Management's judgement in the valuation of provisions, in particular, the NNDR appeals provision.

What did we do?

As set out in our audit plan we confirm that we have performed the following procedures:

- ▶ Capital additions testing
- ▶ Cut off and unrecorded liabilities testing over liabilities
- ▶ Testing over the valuation of provisions
- ▶ Journal entry testing

We have set out the procedures we have undertaken in relation to the above, as well as other supplementary procedures we have performed to provide assurances over the identified risks, on the next page.

What are our conclusions?

Our testing performed to date has not identified any material misstatements from the inappropriate capitalisation of expenditure or the valuation of provisions.

In relation to our work on unrecorded liabilities we identified one error of £1.4m in relation to capital expenditure that had not been accrued. This has been included in section 4 as an uncorrected misstatement.

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



Significant risk



Further details on procedures/work performed

We have performed the following specific procedures over the identified risk areas:

- ▶ **Capital additions testing** - We selected a sample of capital additions based on our established testing threshold and tested these to confirm that all amounts could be agreed to appropriate audit evidence (e.g. invoice, valuation certificate etc.) and that the item being capitalised was capital in nature. No issues have been identified in our work completed to date.
- ▶ **Journal entry testing** - As part of our journal testing we included specific tests to search for unusual activity that:
 - ▶ Moves expenditure from the CIES to PPE on the balance sheet.
 - ▶ Reduces expenditure and creditors.

No unusual activity has been identified as part of our review to date.

- ▶ **Completeness of liabilities** - Performing sample testing over cut off over transactions both before and after the year end and unrecorded liabilities testing over post year end cash payments to ensure that they were accounted for in the correct year based on our established testing threshold. We have also considered the overall completeness of liabilities included within the financial statements to ensure they are not materially misstated. We identified one error in our testing for £1.4 million where capital expenditure had not been accrued for at the balance sheet date. This has been included in the summary of uncorrected misstatements in section 4.

- ▶ **Provisions** - the provisions balance in the financial statements is £30m at 31 March 2019 (£35m at 31 March 2018) of which £17m relates to the provision for business rate appeals which the Council is required to estimate and include in the financial statements in accordance with the Code. The remainder of the balance relates to insurance provisions of £6m and other provisions of £7m (which includes termination benefits, equal pay claims, grant claw back and various other smaller provisions). We have not identified any significant issues with the Council's basis of calculation. We have considered the assumptions used in the calculation and consider them to be reasonable.

Other procedures

As set out in our audit planning report we confirm that we have also performed the following supplementary procedures:

- ▶ Documenting our understanding of the processes and controls in place to mitigate the risks and then walking them through to confirm our understanding.
- ▶ Reviewed the appropriateness of expenditure recognition accounting policies and tested that they had been applied correctly during our detailed testing. Our work in this area is still in progress but we have not identified any errors to date.
- ▶ Reviewed accounting estimates (e.g. IAS 19 liability, valuation of PPE) for evidence of management bias (see relevant sections below and misstatements due to fraud or error).

With the exception of the uncorrected adjustments set out in section 5 we have no matters to report.

Significant risk

Valuation of Investment Properties and Property, Plant and Equipment

What is the risk and what judgements are we focused on?

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

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

As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk fixed assets may be under/overstated. This risk relates to assets that are revalued, being 'Council dwellings', 'Other land and Buildings', 'Surplus assets', 'Assets held for sale' and 'Investment Properties'. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What did we do?

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- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Reviewed and sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans, income streams and yields).
- Engaged EY Real Estate to review a sample of properties to ensure the methodology applied is appropriate.
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer.
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated and whether asset categories held at cost have been assessed for impairment and are materially correct.
- Considered external evidence of asset values via reference to the NAO commissioned Local Government Gerald Eve report and broader market data for the area where relevant. Specifically we have considered if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.
- Considered changes to useful economic lives as a result of the most recent valuation and tested that the valuation accounting entries have been correctly processed in the financial statements, including the treatment of impairments.

What are our conclusions?

We have identified that the house price index applied to the valuation of council dwellings has been applied for the period January 2018 to January 2019, as this was the latest information available on compiling the accounts. However, the March 2019 index has subsequently become available and results in a material movement in the valuation of these assets. As the same methodology has been used by the Council in prior years we have evaluated the impact on the 2017/18 reported valuation (upwards movement of £40m) and that for the opening valuation at 1 April 2017 (downward movement of £20m). As the movement for 2017/18 is material the Council has restated the opening position and corrected for the £66m downward movement in 2018/19.

At the time of writing this report our testing on the valuation of the remainder of the asset base is still in progress. Our findings to date have confirmed the methodology is appropriate and the valuations are supportable.

We have identified that the valuation calculated for the Major Sporting Facilities assets has not been updated in the financial statements on the basis of materiality. However, as the difference is £3.8m we have included this in the schedule of uncorrected misstatements in section 4.

We will provide a further update on the conclusion of our work.

Other areas of audit focus

Accounting for valuation of the Local Government Pension Scheme

What is the risk?

The Local Council Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme (LGPS) administered by the South Yorkshire Pension Council. The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £904.2 million (£776.6 million at 31 March 2018).

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. The information disclosed is based on the IAS 19 report issued to the Council by the actuary. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

- Page 26** We have focused on the following areas, which are consistent with those of management:
- ▶ The reasonableness of the underlying assumptions used by the Council's expert, Mercer, including those associated with recent judgements on McCloud and Guaranteed Minimum Pensions (GMP).
 - ▶ Ensuring the information supplied to the actuary in relation to the Council was complete and accurate.
 - ▶ Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from Mercer.

What did we do?

We have liaised with the auditors of South Yorkshire Pension Council, Deloitte, to obtain assurances over the information supplied to the actuary in relation to the Council.

We have assessed the work of the Pension Fund actuary (Mercer) including the assumptions they have used by relying on the work of PwC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team. The assumptions used by the actuary have been reviewed by both PwC and our EY actuarial team who have both concluded that the assumptions and methodology used are considered to be appropriate.

We have reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19 - no issues have been noted.

Further information on the work performed has been included on the next page.

What are our conclusions?

We have considered the completeness and accuracy of the scheme liabilities. As a result of our work over GMP and McCloud judgments management has obtained a revised IAS19 report and processed an adjustment of £27 million to increase the net liability reported in the financial statements as a result of McCloud. In addition, a judgmental uncorrected misstatement for £3.1m has also been included in section 4 of this report in relation to GMP.

In calculating the scheme assets as at 31 March 2019 the actuary performs a roll forward technique using investment returns and cash flow data since the last triennial. We have considered the reasonableness of the reported asset position and note that the actuary provided updated reporting for actual investment returns. The impact of this was immaterial.

Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable. The sensitivities surrounding these assumptions have been correctly disclosed in the notes to the financial statements.

No other issues have been identified in completing our work.

At the time of writing this report we are awaiting the reporting from the Pension Fund auditors.

Other areas of audit focus



Further details on procedures/work performed

GMP:

In the recent Lloyds Bank High Court case, the judge ruled that all schemes must equalise Guaranteed Minimum Pensions ('GMP') between males and females. In the public sector the government have held two consultations in recent years. The first consultation led to an 'interim' solution being announced by the Government for members reaching State Pension Age (SPA) between 6 April 2016 and 5 December 2018, which involves the LGPS fund paying for everything i.e. both initial pension and all increases. The second consultation extended the interim solution until at least 5 April 2021.

Mercer have not included the impact of GMP in the Council's estimated liability and therefore we have undertaken procedures to estimate if there is a risk of material error from the exclusion of the liability.

In our calculations we have used 0.3% as a proxy for the potential impact, which is the expected impact for those reaching State Pension Age from April 2016 onwards. However, the second consultation for post 2021 is underway. PwC have confirmed that all actuaries have excluded this from the calculations and they consider this reasonable. Given that the calculations prove the impact to be immaterial at 0.3%, the impact of GMP on the liability at 0.1% (the amount estimated for pre 2021) will also be immaterial. As the post 2021 element has not yet been concluded we consider it reasonable that no allowance is made for this in the liability.

With regards to the pre 2021 liability this is estimated to relate to approximately 0.1% of the liability. The maximum impact of this is £3.1 million. Whilst this amount is not material we have considered it appropriate to raise this as a judgemental uncorrected misstatement and included this in section 4.

McCloud:

In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018, the Court of Appeal ruled that the 'transitional protection' offered to some members of the judicial and fire fighters' schemes as part of the reforms amounted to unlawful discrimination. As of 27 June 2019, the LGPS Scheme Advisory Board have advised that the Government have been denied leave to appeal the judgements and commissioned GAD to undertake an assessment of the impact of the McCloud judgement on the LGPS. GAD have been able to determine an estimated impact, based on two scenarios. Initial interpretation by the actuaries have demonstrated that this can be applied to their actuarial assumptions, including adjusting the key sensitive assumption of the salary growth assumption specific to the particular fund or scheduled/admitted body.

We requested that the Council obtained an updated actuarial report from Mercer which included the impact of McCloud. As a result the estimated past service cost has been calculated as £27m, which has been amended within the financial statements. We have considered the assumptions used by the actuary in their calculation and note that the growth assumption and other assumptions are consistent with those used within the information used in the original IAS 19 report and the last triennial valuation report. We have also used data from the triennial review and considered multiple scenarios and sensitivity analysis. In considering this we are satisfied that the assumptions used by the actuary are considered to be appropriate.

Asset review:

In considering the reasonableness of the asset value calculated by the actuary we have:

- ▶ Considered the movement in the share of the Council's assets and confirmed that the trend is in line with expectations.
- ▶ Compared the estimated investment returns used by the actuary against the actuals of the pension fund, and considered if the movement in the pension fund assets is broadly in line with this.
- ▶ Performed a high level recalculation using actual returns and cashflows since the last triennial to estimate the expected asset value.
- ▶ Reviewed the work performed by Deloitte - at the time of writing this report we are awaiting their reporting.

Other areas of audit focus

PFI and service concession arrangements

What is the risk and what judgements are we focused on?

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

As this is EY's first year as appointed auditor to the Council, we are required to gain assurance that the schemes are being accounted for correctly and that the financial statements are supported by underlying documentation and financial models.

What did we do?

As set out in our audit plan we confirm that we have performed the following procedures:

As this is our first year of the audit we have reviewed (with the support of EY specialists) the accounting judgements and models to ensure that we are comfortable with the judgements and related accounting treatment in the financial statements.

For each of the schemes we have undertaken testing of in-year inputs to the accounting models and agrees relevant entries in the financial statements to year-end outputs from each of the models.

- Reviewed associated disclosures within the financial statements to confirm they meet Code requirements and are reflective of supporting documentation.

What are our conclusions?

We are in the process of concluding our work in this area but have not identified any significant issues in the work performed to date.

Other areas of audit focus

New accounting standards - IFRS 9 and IFRS 15

What is the risk and what judgements are we focused on?

IFRS 9 - financial instruments: This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and has changed how financial assets are classified and measured; how the impairment of financial assets are calculated; and the disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9.

IFRS 15 - Revenue contracts with customers: This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised. The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non-domestic rates and government grants will be outside the scope of IFRS 15.

What did we do?

As set out in our audit plan we confirm that we have performed the following procedures:

- ▶ Assessed the Council's implementation arrangements and impact assessment papers setting out the application of the new standards, transitional adjustments and planned accounting for 2018/19.
- ▶ Considered the classification and valuation of financial instrument assets.
- ▶ Reviewed the new expected credit loss model impairment calculations for assets.
- ▶ Considered the application of IFRS 15 on the Council's revenue streams, and where relevant tested to ensure revenue is recognised when (or as) it satisfies a performance obligation.
- ▶ Checked additional disclosure requirements are correctly included.

What are our conclusions?

Management have completed their own assessment of IFRS 15 and have concluded there is no significant impact. At the time of writing this report we are awaiting management's concluding impact assessment for IFRS 15. However, based on our work on the other procedures we have not identified any significant issues.



Areas of Audit Focus



Other matters - Sheffield City Trust and Major Sporting Facilities balances

Whilst we do not consider this to constitute a heightened risk we have undertaken procedures in our first year as your auditor to understand the transactions included within the financial statements related to Sheffield City Trust. We have:

- ▶ Obtained the background to the transaction and related accounting entries.
- ▶ Obtained and reviewed the related agreements.
- ▶ Confirmed the balances in relation to the prepayment to the underlying agreements and calculating the expected prepayment value at the year end.
- ▶ Considered the treatment of the payments to Sheffield City Trust and whether they meet the definition of a service concession. We have then tested the valuation of the long term debtor included in the financial statements.
- ▶ Tested the valuation of the three assets.
- ▶ Obtained and tested the bond repayment schedule and agreed this to the creditor included in the financial statements.
- ▶ Reviewed the financial statements of Sheffield City Trust and considered any additional balances for consideration.

In addition to the above we have also challenged the Council on whether they exert control over Sheffield City Trust for the purposes of considering consolidation requirements.

In relation to the above we identified the following:

- ▶ The Council have not updated the valuation in the financial statements since the 2016/17 valuation on the basis that the impact is not material. This has resulted in a difference of £3.8m, where the asset value reported in the accounts is understated. We have included this as an uncorrected error in section 4.
- ▶ We recommended the inclusion of additional narrative on critical judgements associated with the Council's determination of not exerting control over the Trust. This is being amended within the financial statements.



Areas of Audit Focus



Other matters - Forthcoming accounting standards

IFRS 16 replaces IAS 17 Leases and its related interpretations. It will now apply to the 2020/21 financial statements. The changes introduced by the standard will have substantial practical implications for local authorities that currently have material operating leases, and are also likely to have an effect on the capital financing arrangements of the Council.

We have considered the Council's implementation plan and preparedness for IFRS 16. The Council is yet to perform an impact assessment or detailed analysis on the completeness of leases and identifying those that may require reclassifying. The intention is to complete this work once the 2018/19 audit is concluded.

In addition, changes have been made to the CIPFA/LAASAC Code for 2019/20, as noted below.

- ▶ The revised IASB *Conceptual Framework for Financial Reporting (Conceptual Framework)*, the main elements being (19/20 Code Cpt 2.1 refers);
 - *new definitions of assets, liabilities, income and expenses*
 - *updates for the inclusion of the recognition process and criteria and new provisions on derecognition*
 - *enhanced guidance on measurement bases*

- ▶ Guidance in the treatment of the Apprenticeship Levy (19/20 Code Cpt 2.11 refers)

Updated guidance on IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation & LOBOs (19/20 Code Cpt 2.11 refers)

Clarifications for the disclosure requirements with respect to interests in entities within the scope of IFRS 5 Non-current Assets Held for Sale and Discontinued Operations (19/20 Code Cpt 9 refers)

We do not currently believe that the above would result in a material impact to the Council, however, the Council should ensure that they perform their own assessment of the impact.



03 Audit Report



Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Sheffield City Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- ▶ Comprehensive Income and Expenditure Statement;
- ▶ Movement in Reserves Statement;
- ▶ Balance Sheet;
- ▶ Cash Flow Statement and the related notes 1 to 46;
- ▶ Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement and the related notes 1 to 13;
- ▶ Collection Fund and the related notes 1 to 2; and
- ▶ Accounting Policies.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- ▶ give a true and fair view of the financial position of Sheffield City Council as at 31 March 2019 and of its expenditure and income for the year then ended; and
- ▶ have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Sheffield City Council in accordance with the ethical requirements that are

relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard and the Comptroller and Auditor General's (C&AG) AGN01, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Executive Director of Resources is responsible for the other information.

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

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



Draft audit report

Our opinion on the financial statements

We have nothing to report in this regard.

Opinion on other matters prescribed by the Local Audit and Accountability Act 2014

Arrangements to secure economy, efficiency and effectiveness in the use of resources

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Sheffield City Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

- ▶ in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- ▶ we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- ▶ we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- ▶ we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Responsibility of the Executive Director of Resources

As explained more fully in the Statement of Responsibilities of the Executive Director of Resources set out on page 17, the Executive Director of

Resources is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Executive Director of Resources is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether Sheffield City Council had proper arrangements to ensure it took properly informed



Draft audit report

Our opinion on the financial statements

decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the [name of body] put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, Sheffield City Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack.

In addition, we cannot formally conclude the audit and issue the audit certificate for 2018/19 until the certificates for 2016/17 and 2017/18 are issued.

We are satisfied that this work does not have a material effect on the financial statements or on our value for money conclusion.

Until we have completed these procedures we are unable to certify that we have completed the audit of the accounts in accordance with the requirements

of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

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

Stephen Clark (Key Audit Partner)

Ernst & Young LLP (Local Auditor)

Birmingham

Date:

The maintenance and integrity of the Sheffield City Council web site is the responsibility of the members; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following adjustments greater than £12.2m which have been corrected by management that were identified during the course of our audit:

- ▶ £27m understatement of pension liabilities due to the impact of McCloud.
- ▶ £40m upward revaluation of council dwellings impacting the comparative information.
- ▶ £66m downward revaluation of council dwellings in 2018/19 due to receipt of more up to date information.

The above have been set out in more detail in section 2.

Summary of unadjusted differences

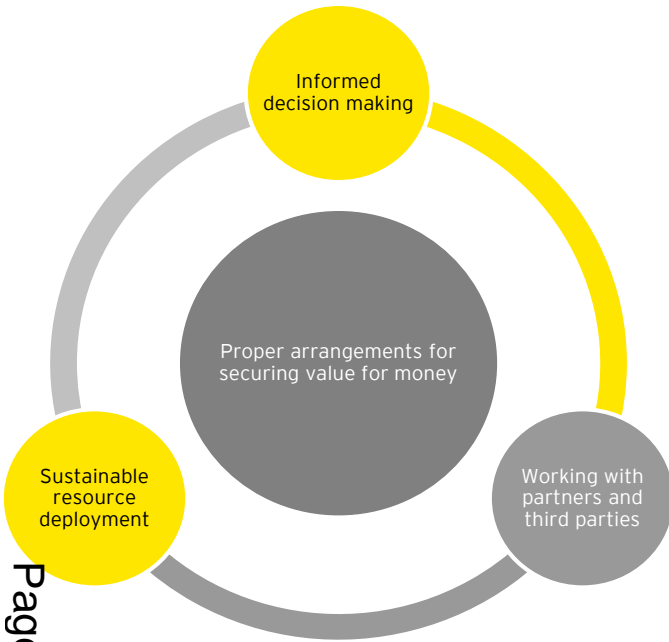
In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit & Standards Committee and provided within the Letter of Representation. We note that none of these misstatements have an impact on the general fund for the purposes of setting council tax.

Uncorrected misstatements (£m)	Effect on the current period:	Balance Sheet (Decrease)/Increase			
	Comprehensive income and expenditure statement Debit/(Credit)	Assets current Debit/(Credit)	Assets non current Debit/(Credit)	Liabilities current Debit/(Credit)	Liabilities non-current Debit/(Credit)
Known differences:					
Capital expenditure relating to 2018/19 that had not been accrued for in the financial statements: Dr Property, plant and equipment Cr Creditors		1.4		(1.4)	
Judgemental differences:					
Impact of GMP not included within the pension liability Dr Expenditure Cr Pension liability	3.1				(3.1)
Valuation of Major Sporting Facility assets not updated in the financial statements Dr Long term debtor Cr Revaluation of assets	(3.8)		3.8		
Balance sheet totals		1.4	3.8	(1.4)	(3.1)
Income effect of uncorrected misstatements	(0.7)				
Cumulative effect of uncorrected misstatements	(0.7)			0.7	



05

Value for Money Risks



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

Overall conclusion

Overall conclusion

We identified one significant risk around these arrangements. The table below presents our findings in response to the risk in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention.

We are satisfied that the Council has appropriate arrangements in place with regard to the identified significant risk. Our full assessment is set out on the next page.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

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

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



Value for Money Risks

What is the significant value for money risk?

Securing Financial Resilience

Arrangements impacted: Deploy resources in a sustainable manner

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

The Council has responded well to challenges and delivered significant and continued levels of savings (£460m since 2010) whilst maintaining services for the local population.

The financial position reported to Cabinet to month 11, identified that the Council was forecasting a £6.5m overspend for 2018/19 which was highlighted as potentially reducing slightly by the year-end. This included a £15m overspend within Adult and Children's' social care budgets, after additional investment of £15m in these areas for 2018-19.

The approved 2019-20 budget identified a balanced position for the year and included an additional £20m investment in social care services. The balanced position did however include a planned £11m use of Council reserves.

The reported financial performance highlighted the importance of increased focus on delivery of savings in overspending areas, service transformation and ongoing investment in key areas. Whilst the Council has a good track record of delivering savings and had a reasonable level of reserves, the trajectory of overspending is not sustainable in the medium to long term and services will need to be transformed to tackle pressures and meet savings requirements in supporting the Council 4 year plan to bring the budget back to balance.

What are our findings?

Our approach has focussed on:

- ▶ Considering the current financial standing and the availability of reserves to fund future expenditure.
- ▶ Considering the 2018/19 outturn performance and impact on the current MTFS.
- ▶ Considering the appropriateness of assumptions used by the Council in setting the budget and Medium Term Financial Strategy.

The scale of savings and service transformation to be delivered by the Council over the medium term are significant.

The Council currently has a level of general fund reserves (£8.1 million at 31 March 2019) which represents 2.0% of the 2018/19 net budget requirement of £401.9m. This is a decrease of 2.7% compared to the prior year and is below the minimum level recommended by the Executive Director of Resources, mainly as a result of a £4.6m overspend in 2018/19. The Council plan to return the reserve to the minimum recommended level of 3% of net revenue expenditure during 2019/20.

The Council also has in place substantial levels of usable earmarked reserves (£226.8 million at 31 March 2019), of which £24m relates to Schools balances. These have been established for a number of purposes, including the financial consequences of matters that have not yet arisen or to fund specific service areas/projects. The existence of these reserves provides further evidence of the Council's prudent approach to financial management. We note that these include service areas reserves of £14m and children and adult social care reserves of £19m. It is forecast that £8.4m of this reserve will be required to fund pressures in 2019-20 and deliver a balanced budget.

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Value for Money Risks

What are our findings? (continued)

The final budget for 2019/20 was presented to Council and approved on 6 March 2019. This sets out a balanced position after the use of £11m of reserves. The Council has invested a further £20m in social care services following overspends again in 18/19 to transform services in this area. The use of reserves is dependent on achievement of the savings target for the year of £30m which is supported by plans by portfolio which are published on the Council's website. Over the next 4 years the planned use of reserves is £35m of reserves, which is dependent on savings of £70m and delivery of savings through Health Joint Commissioning.

The budget relies upon a number of potentially non-recurrent items (e.g. use of reserves, contribution from the Collection Fund, Social Care Funding) and the Council have developed a 4 year budget tracker to model the impact of budget, best case and current assessment scenarios. As of June 2019 the modelled reserve usage is as follows:

- ▶ A best case of £6.1m
- ▶ The budget case of £34.7m;
- ▶ A current assessment of £71.8m - which would be predominantly driven by £10.3m slippage in savings in 2020/21, the impact for three years being £30.9m.

Whilst the Council faces continued financial pressures, our review of the budget setting process, assumptions used in financial planning, in year financial monitoring, and the Council's history of delivering savings plans has not identified any significant matters that we wish to report to you.

We are finalising our findings in this area but anticipate issuing an unqualified VFM conclusion.

Other matters to bring to your attention

What are our findings?

In January 2019, Ofsted and the Care Quality Commission (CQC) issued a report on their joint inspection of the local area of Sheffield to judge the effectiveness of the area in implementing the disability and special educational needs reforms as set out in the Children and Families Act 2014. This identified significant areas of weakness for both the Council and CCG. The Council has detailed the findings of the report in their Annual Governance Statement.

Following identification of this report, we have considered whether it is representative of a significant value for money risk and concluded that it does not on the basis that the report, whilst raising issues/weaknesses, also identifies areas of good practice between the work of the Council and CCG.

The report also does not provide a rating of the services provided and represents only a small element of the overall Council service provision. When put into the context of the wider OFSTED ratings received by the Council we do not believe there to be a significant weakness in arrangements, but there are issues with outcomes.

The Council has responded positively to the findings of the report and has worked with the CCG to address the issues and provided the requested written response which is published on the Council's website.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19, including the narrative report by the Executive Director of Resources, with the audited financial statements.

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

Financial information in the Statement of Accounts 2018/19, including the narrative report by the Executive Director of Resources, and published with the financial statements was consistent with the audited financial statements.

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

Whole of Government Accounts

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

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as at the time of writing, we had only just received the Group Audit instructions from the NAO. We will complete this work in August ahead of the deadline of 13 September 2019.

Other powers and duties

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

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

Other reporting issues

Other matters

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

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

We have no matters to report.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

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

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

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

Other matters:

Whilst it is not considered to be a significant deficiency we have experienced some difficulties in obtaining evidence in relation to school balances included within the financial statements. This has meant that in a number of instances we have been required to perform alternative procedures to gain assurances over the material accuracy of balances included in the financial statements. This has extended to the receipt of bank confirmations where c20 confirmations remain outstanding (out of c200 school bank accounts).

We have discussed the above with management and have agreed to revisit the audit of school balances early in the 2019/20 audit process to ensure there is an understanding of key audit requirements to facilitate the receipt of information from schools.



08 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit - Journal entry testing and payroll testing

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Data analytics

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

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

In 2018/19, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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

Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 18 April 2019. We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Standards Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Standards Committee on 25 July 2019.

We confirm that we will undertake non-audit work outside the NAO Code requirements in relation to the below. We will adopt the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

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

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. We highlight the following relationships that may be reasonably considered to bear upon our objectivity and independence. However we have adopted the safeguards noted below to mitigate these threats.

Description of service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Housing benefit work no longer forms part of the work required by PSAA and we are separately engaging with the Council on the appointment for this work in 2018/19. Our anticipated fees are £19,000.	Self review threat - figures included in the return are also included in the financial statements.	Year ended 31 March 2019 and for all subsequent accounting periods. However, this will be assessed annually.	<p>The specific testing of individual benefit claims and associated subsidy calculations undertaken in respect of the Housing Benefits agreed upon procedures engagement is distinct and separate to any work we have or will undertake on the financial systems of the Council. The results of the testing is not reflected in the amounts included/disclosed in the financial statements.</p> <p>In respect of the checking of benefit system parameters, this work is common across our external audit procedures and this engagement. Our external audit is concluded prior to this engagement. The external audit conclusion is therefore not reliant upon the conclusion of the Housing Benefit engagement. No advice will be given in relation to accounting treatment.</p> <p>The report we provide will be prepared or given solely for the purposes of the agreed upon procedures engagement for Housing Benefits and will not be used or relied upon for any other purposes.</p>



Independence

Description of service	Related independence threat	Period provided/ duration	Safeguards adopted and reasons considered to be effective
Teachers' pension return and Housing capital receipts pooling	Self review threat - figures included in the return are also included in the financial statements.	Year ended 31 March 2019 and for all subsequent accounting periods. However, this will be assessed annually.	<p>The specific testing on these returns are distinct and separate to any work we have or will undertake on the financial statements. Whilst the figures are present in the financial statements the work to be performed on the returns is more granular than that required for the purposes of the accounts audit.</p> <p>Our external audit is concluded prior to these engagements. The external audit conclusion is therefore not reliant upon the conclusion on the results of them. No advice will be given in relation to accounting treatment.</p> <p>The report we provide will be prepared or given solely for the purposes of the Teachers' pension return and Housing capital receipts pooling returns and will not be used or relied upon for any other purposes.</p>

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute. Further detail of all fees has been provided to the Audit & Standards Committee.

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

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have undertaken non-audit work outside the NAO Code requirements as set out below and on the previous pages. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Planned fee 2018/19	Scale fee 2018/19
	£	£
Total Fee - Code work	143,988	143,988
Total audit	143,988	143,988
Other non-audit services not covered above (Housing Benefits)	19,000	N/A
Teachers' Pensions	TBC	N/A
Housing capital receipts pooling	TBC	N/A
Total other non-audit services	19,000 - TBC	N/A
Total fees	162,988 - TBC	143,988

All fees exclude VAT

Due to the increase in audit procedures required to address the additional risks and audit findings identified in this Audit Results Report we will need to increase our audit fee. This will result in an revised audit fee which we will agree with the S151 officer before gaining approval from Public Sector Audit Appointments Ltd. We will report the final fee to the Audit & Standards Committee within our Audit Letter or at a later date, depending on timing.



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10 Appendices




Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, Plant and Equipment	Substantively tested all relevant assertions	Controls testing supplemented with substantive testing over relevant assertions	The audit was carried out by KPMG in the prior year. We evaluated the control findings identified in the prior year audit, along with the efficiency and effectiveness of undertaking a controls audit. Given this is our first year as the Council's auditors and the combined level of testing that would be required under a controls based approach (which would include gaining IT comfort, automated and controls testing and a level of substantive testing), we have determined a substantive approach to be the most suitable.
Heritage Assets			
Investment Properties			
Short Term Investments	Immaterial - Substantively tested assertion for presentation and disclosure	Substantively tested all relevant assertions	
Debtors (short and long term)	Substantively tested all relevant assertions	Tested controls over all relevant assertions with limited substantive testing	
Creditors (short and long term)			
Cash and Cash Equivalents	Substantively tested all relevant assertions	Controls testing supplemented with substantive testing over relevant assertions	
Assets Held for Sale			
Net Pension Liability			
Borrowing (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Provisions (short and long term)			
PFI / PPP Finance Lease Liability (short and long term)			
Capital Grants Receipts in Advance (short and long term)			
Other Long Term Liabilities			
Usable and Unusable Reserves	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A
Intangible Assets			
Inventories			




Summary of communications



Date 	Nature 	Summary 
05/10/2019	Meeting	Senior members of the audit team, met with the management team to discuss initial planning considerations.
26/11/2018	Meeting	Senior members of the audit team, met with the management team to discuss initial planning considerations.
23/01/2019	Meeting	The partner in charge of the engagement and other senior members of the audit team, met with met with key officers of the Council to discuss emerging issues and the planning of the 2018/19 audit, including relevant risks.
23/03/2019	Meeting	Senior members of the audit team, met with the management team as part of on-going liaison meetings to discuss the progress with audit planning and interim work.
18/04/2019	Report/Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit & standards committee and senior members of the management team to discuss the audit planning report. This also included confirmation of independence.
15/05/2019	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with key officers of the Council to discuss emerging issues as part of ongoing liaison meetings.
Weekly meetings during June and July	Meeting	Senior members of the audit team, met with the management team during the final audit to discuss progress and emerging issues.
15/07/2019	Meeting	The partner in charge of the engagement, along with other senior members of the audit team, met with the management to discuss the matters identified as part of the final audit.
17/07/2019	Report	The audit results report, including confirmation of independence, was issued to the Audit & Standards Committee.
25/07/2019	Meeting	The partner in charge of the engagement, accompanied by other senior members of the audit team, met with the audit & standards committee and senior members of the management team to discuss the audit results report.





In addition to the above specific meetings and letters the audit team met with the management team multiple times throughout the audit to discuss audit findings.



Required communications with the Audit & Standards Committee

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

		Our Reporting to you
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the audit & standards committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report - April 2019
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report - April 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process ▶ Findings and issues regarding the opening balance on initial audits 	Audit results report - July 2019
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the Audit & Standards committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Council ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Council, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit & Standards Committee responsibility. 	Audit results report - July 2019

Required communications	 What is reported?	 When and where
Public Interest Entities	<p>For the audits of financial statements of public interest entities our written communications to the Audit & Standards Committee include:</p> <ul style="list-style-type: none"> ▶ A declaration of independence ▶ The identity of each key audit partner ▶ The use of non-member firms or external specialists and confirmation of their independence ▶ The nature and frequency of communications ▶ A description of the scope and timing of the audit ▶ Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits ▶ Materiality ▶ Any going concern issues identified ▶ Any significant deficiencies in internal control identified and whether they have been resolved by management ▶ Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Audit & Standards Committee ▶ Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof ▶ The valuation methods used and any changes to these including first year audits ▶ The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework ▶ The identification of any non-EY component teams used in the group audit ▶ The completeness of documentation and explanations received ▶ Any significant difficulties encountered in the course of the audit ▶ Any significant matters discussed with management ▶ Any other matters considered significant 	Audit planning report - April 2019 Audit results report - July 2019
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit results report - July 2019 No conditions or events were identified, either individually or together to raise any doubt about Sheffield City Council's ability to continue for the 12 months from the date of our report

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report - July 2019
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the Audit & Standards Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report - July 2019
Related parties	Significant matters arising during the audit in connection with the Council's related parties including, when applicable: <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Council 	Audit results report - July 2019
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	Audit results report - July 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit & Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit & Standards Committee may be aware of 	Audit results report - July 2019 We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	Audit results report - July 2019
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report/Annual Audit Letter



Required communications	 What is reported?	 When and where
<p>Independence</p>	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2016:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Details of any contingent fee arrangements for non-audit services ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The Audit & Standards committee should also be provided an opportunity to discuss matters affecting auditor independence 	<p>Audit planning report - April 2019</p> <p>Audit results report - July 2019</p>



Appendix C



Our Reporting to you

Required communications	 What is reported?	 When and where
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report - July 2019
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report - July 2019
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit planning report - April 2019 Audit results report - July 2019
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report

Management representation letter

Management Rep Letter

[To be prepared on the Council's letterhead]

[Date]

Ernst & Young
1 Colmore Square
Birmingham
B4 6HQ

This letter of representations is provided in connection with your audit of the financial statements of Sheffield City Council ("the Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the Council financial position of Sheffield City Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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

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

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash

flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, that are free from material misstatement, whether due to fraud or error.

We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because the items are not qualitatively or quantitatively material.

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

We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:

- ▶ involving financial statements;
- ▶ related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

Management representation letter

Management Rep Letter

- ▶ related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- ▶ involving management, or employees who have significant roles in internal controls, or others; or
- ▶ in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

- ▶ Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- ▶ Additional information that you have requested from us for the purpose of the audit; and
- ▶ Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

All material transactions have been recorded in the accounting records and are reflected in the financial statements.

We have made available to you all minutes of the meetings of the Council and committees, including the Audit & Standards Committee and Cabinet, (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date: 25 July 2019.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or

from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Note 22 to the financial statements all guarantees that we have given to third parties.

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives concerning investigations or allegations of non-compliance.

E. Subsequent Events

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

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report by the Executive

Management representation letter

Management Rep Letter

Director of Resources, the Statement of Responsibilities, the Annual Governance Statement, the Trade Union (Facility Time Publication Requirements) Regulations 2017 reporting and the Glossary.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Restatement of comparative information

We confirm that we have restated the comparative information to reflect information that was available prior to signing the financial statements in the prior year in relation to the revaluation of council dwellings. The house price index applied to the valuation of council dwellings had been applied for the period January 2017 to January 2018. However, the March 2018 index was subsequently available in June 2018 and resulted in a material movement in the valuation of these assets.

The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's financial statements.

H. Ownership of Assets

Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.

All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. We have no other line of credit arrangements.

I. Reserves

We have properly recorded or disclosed in the financial statements the useable and unusable reserves.

J. Use of the Work of a Specialist - Property valuations

We agree with the findings of the specialists that we engaged to evaluate the Valuation of Property Plant and Equipment, Assets Held for Sale, Investment Properties and assets associated with the Major Sporting Facility and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

K. Valuation of Property, Plant and Equipment Assets and Investment Properties

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the significant assumptions used in making the valuation of assets appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the consolidated and council financial statements due to subsequent events.

We confirm that we have performed a desktop review of all assets not subject to revaluation as part of the 5 year rolling programme not revalued at 31 March 2019, and that they are not materially misstated.

We confirm that for assets carried at historic cost that no impairment is required

Management representation letter

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L. Retirement benefits

On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

M. Use of the Work of a Specialist - Pension Liabilities

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

N. Valuation of Pension Liabilities

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the significant assumptions used in making the valuation of the pension liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the consolidated and council financial statements with respect to the accounting estimate are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events.

P. Valuation of NNDR appeals provision

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that the significant assumptions used in making the NNDR appeals provision appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate is complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events.

Q. Major Sporting Facility

We confirm that we do not exert control over Sheffield City Trust and that it is correct that the results of that entity are not consolidated into the Sheffield City Council financial statements.

We confirm that we do not have the ability to control the assets in use by Sheffield City Trust, being Ponds Forge, Sheffield Arena and Hillsborough Leisure Centre (also known as the Major Sporting Facilities), and in particular the pricing structure, which is determined by Sheffield City Trust. As such, we confirm the assets do not meet the definition of a service concession.

Yours faithfully,

(Executive Director of Resources)

(Chairman of the Audit & Standards Committee)

About EY

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

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