



Annual Audit Letter 2016/17

Sheffield City Council

November 2019

A group of business professionals in a meeting, looking at documents. The image is a close-up, slightly blurred, showing several people in business attire. A woman with dark hair is on the left, looking down. A man with grey hair is in the center, also looking down. Another woman is on the right, partially visible. They appear to be in a meeting or conference room, looking at documents or a screen. The overall tone is professional and focused.

Section one

Summary for Audit & Standards Committee

Summary for Audit & Standards Committee

This Annual Audit Letter summarises the outcome from our audit work at Sheffield City Council (“the Authority”) in relation to the 2016-17 audit year, which has been finalised following the resolution of an objection to the accounts raised by a local elector.

Although it is addressed to Members of the Authority, it is also intended to communicate these key messages to key external stakeholders, including members of the public, and will be placed on the Authority’s website.

Audit opinion

We issued an unqualified opinion on the Authority’s financial statements on 01st December 2017. This means that we believe the financial statements give a true and fair view of the financial position of the Authority and of its expenditure and income for the year.

Financial statements audit

Our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole. Materiality for the Authority’s accounts was set at £22 million which equates to around 1.5 percent of gross expenditure. We design our procedures to detect errors in specific accounts at a lower level of precision.

We report to the Audit & Standards Committee any misstatements of lesser amounts, other than those that are “clearly trivial”, to the extent that these are identified by our audit work. In the context of the Authority, an individual difference is considered to be clearly trivial if it is less than £1 million for the Authority.

We have identified 4 audit adjustments with a total value of £351.7 million. These adjustments result in a net nil impact in the reported surplus on provision of services and a net nil impact on the general fund.

Our audit work was designed to specifically address the following significant risks:

Management Override of Controls – In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business or are otherwise unusual. There were no matters arising from this work;

Valuation of PPE – We reviewed the approach that the Authority adopted to assess the risk that assets not subject to valuation were materially misstated and considered the robustness of that approach. As a result of this work we identified some assets that had not increased in value as a result of changes in build costs in the year, this resulted in an increase in PPE value of £27.7m and has been adjusted by the Authority.

Pensions Liabilities & LGPS Triennial Valuation – we reviewed the controls that the Executive has in place over the information sent directly to the Scheme Actuary (Mercer). We reviewed the appropriateness of the key assumptions included within the valuation and compared them to expected ranges. We also reviewed the methodology applied in the valuation by Mercer;

Prepayment of Pension – The council has made a significant pension prepayment during the year (£65m). We reviewed the legal advice obtained and the accounting transactions to ensure the treatment was materially accurate and in line with CIPFA guidance; and

New core financial system – We reconciled the closing balance on the old ledger to the opening balance on the new ledger to ensure no transactions were lost or duplicated in the transfer. Through our testing of activity during the year we have verified that the correct mapping has been used both for the transfer and subsequent activity.

Summary for Audit & Standards Committee

Other information accompanying the financial statements

Whilst not explicitly covered by our audit opinion, we review other information that accompanies the financial statements to consider its material consistency with the audited accounts. This year we reviewed the Annual Governance Statement and Narrative Report. We concluded that they were consistent with our understanding and did not identify any issues.

Whole of Government Accounts

We reviewed the consolidation pack which the Authority prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Authority's pack was consistent with the audited financial statements.

Value for Money conclusion

We issued an unqualified conclusion on the Authority's arrangements to secure value for money (VFM conclusion) for 2016-17 on 01 December 2017. This means we are satisfied that during the year the Authority had appropriate arrangements for securing economy, efficiency and effectiveness in the use of its resources. To arrive at our conclusion we looked at the Authority's arrangements to make informed decision making, sustainable resource deployment and working with partners and third parties.

Value for Money risk areas

We undertook a risk assessment as part of our VFM audit work to identify the key areas impacting on our VFM conclusion and considered the arrangements you have put in place to mitigate these risks.

Our work identified the following significant matter:

Financial Resilience with a particular focus on the performance of Social Care – Like most of local government, the Authority faces a challenging future driven by funding reductions and an increase in demand for social care services.

We noted that regular reports continued to go to Audit and Standards Committee highlighting the progress being made in terms of budget monitoring and cost controls. We noted that this work continues to be ongoing with the portfolio continually striving to improve. We also noted from budget and the final outturn reports that the position was reported upon throughout the year and was understood. The final overspend of £6.3m in the Children, Young People and Families Portfolio and £6.6m in the Communities portfolio was forecast and understood. As a result we have gained assurance that the position with regards to the overspends has been transparently reported, giving us assurance with regards to the 'informed decision making' criteria.

We were satisfied from review and discussion of internal processes that there was relevant monitoring and actions with regards to the performance of the portfolio. We were satisfied that the level of internal scrutiny was appropriate to effectively manage the identified risk.

We have also reviewed the recovery and change programmes in place which further incorporate how the Council should continue to work with the CCG more closely. These plans give us assurance that the Council continues to review the pressures and will redesign services to meet the demand pressures, thus demonstrating that sustainable resource deployment has taken place.

Section one:

Summary for Audit & Standards Committee

High priority recommendations

We raised three high priority recommendations as a result of our 2016-17 work.

These recommendations were all related to the valuation processes employed by the Authority.

The first recommendation was with regards to the Authority needing to implement a formal impairment review process and consideration of the possible movement of value in assets outside of the rolling five year revaluation programme.

The second recommendation was with regards to the Authority making further consideration as to the rationale for assets that are revalued in year and considering whether this reflects a fair proportion of the asset base as a whole and also any corporate decisions made in year.

The third recommendation related to the independence of the Council's valuation team. This team came back in house to the Authority in year and we noted that the Authority needed to ensure that there are appropriate measures in place to ensure that the valuers remain independent and that this independence is documented through clear, detailed instructions. We noted that the valuation team should not include figures in their report provided by other Council teams unless they have verified all calculations and assumptions used.

Certificate

We received an objection to the Authority's financial statements which we have considered and concluded that no further action is required to be undertaken. This consideration led to a delay in issuing our final audit certificate until 8th November 2019.

Now issued the certificate confirms that we have concluded the audit for 2016-17 in accordance with the requirements of the Local Audit & Accountability Act 2014 and the Code of Audit Practice.

Audit fee

Our audit fee for 2016-17 was £186,998, excluding VAT (2015-16: £186,998). This fee was in line with that planned for the year, with some small additional fees incurred related to the Authority's move to a new financial ledger. Further detail is contained in Appendix 2.

Exercising of audit powers

We have a duty to consider whether to issue a report in the public interest about something we believe the Authority should consider, or if the public should know about.

We have not identified any matters that would require us to issue a public interest report.



Appendices

Appendix 1:

Summary of reports issued

This appendix summarises the reports we issued since our last Annual Audit Letter. These reports can be accessed via the Audit & Risk Committee pages on the Authority's website at www.sheffield.gov.uk.

Certification of Grants and Returns

This report summarised the outcome of our certification work on the Authority's 2015-16 grants and returns.

External Audit Plan

The External Audit Plan set out our approach to the audit of the Authority's financial statements and to support the VFM conclusion.

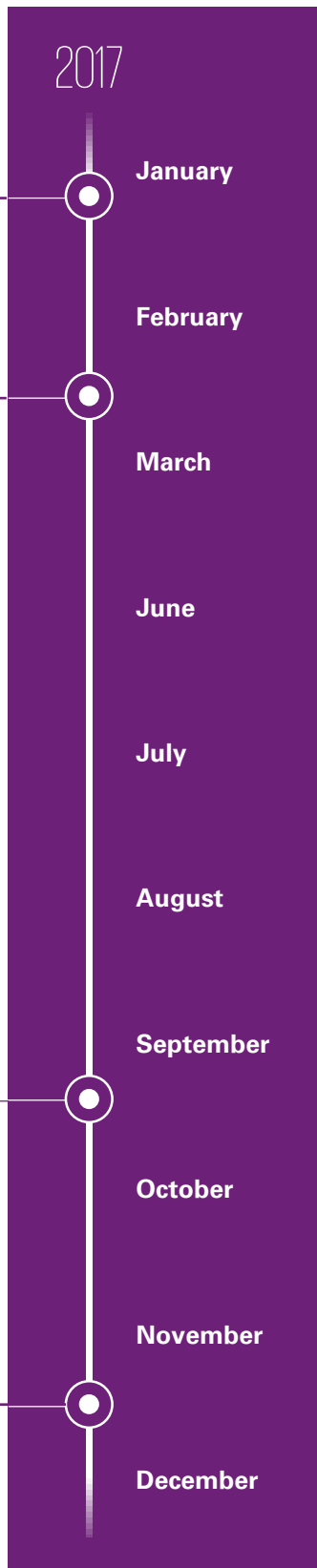
Report to Those Charged with Governance

The Report to Those Charged with Governance summarised the results of our audit work for 2016-17 including key issues and recommendations raised as a result of our observations.

We also provided the mandatory declarations required under auditing standards as part of this report.

Auditor's Report

The Auditor's Report included our audit opinion on the financial statements along with our VFM conclusion.



Appendix 2:

Audit fees

This appendix provides information on our final fees for the 2016-17 audit.

As communicated to you in our *External Audit Plan 2016-17*, our scale fee for the audit is £186,998 plus VAT (£186,998 in 2016/17), which is consistent with an increase of 2% from the prior year.

We have previously agreed with management an additional fee of £6,000 related to additional work required over phase 1 of the new Integra General Ledger system and £3,000 related to additional IT system audits.

Our work on the certification of the Authority's Housing Benefit Subsidy return was completed in November 2017. The planned scale fee for this was £19,840 plus VAT (£19,840 in 2016/17). However we also requested further fee for this work due to the volume of additional work required. Fees for other grants and claims which do not fall under the PSAA arrangements amount to £12,000 plus VAT (£12,000 in 2015/16), see further details below.

Other services

We did not charge any additional fees for other services.

Component of the audit	2016-17 Actual Fee £	2015-16 Actual Fee £
Accounts opinion and value for money work		
PSAA Scale fee (Sheffield City Council)	186,998	186,998
Additional fee in relation to IT	9,000	7,000
Total audit services	195,998	193,998
Mandatory assurance services		
Housing Benefits Certification	23,262	30,025
Total mandatory assurance services	23,262	30,025
Audit-related assurance services		
Teachers' Pension Return	3,250	3,250
Pooling of Housing Capital Receipts	2,750	2,750
SFA Subcontractor Controls Assurance	6,000	6,000
Total audit-related assurance services	12,000	12,000
Total non-audit services	35,262	42,025
Grand total fees for the Authority	231,260	236,023

All fees quoted are exclusive of VAT.



The key contacts in relation to our audit are:

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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointment's website (www.psa.co.uk).

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

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

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