Sheffield City Council Provisional audit results report

Year ended 31 March 2020

23 November 2020

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23 November 2020

Dear Audit & Standards Committee Members

We are pleased to attach our provisional audit results report for the forthcoming meeting of the Audit & Standards Committee. This report summarises our provisional audit conclusion in relation to the audit of Sheffield City Council for 2019/20. We will issue our final report on conclusion of our audit.

We are currently in the process of undertaking our audit of Sheffield City Council for the year ended 31 March 2020.

As set out on pages 5 to 7, a number of issues have arisen as a result of covid-19 which may impact on our audit opinion.

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.

We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources but have highlighted some matters in relation to future years that warrant the attention of the Audit & Standards Committee.

This report is intended solely for the use of the Audit & Standards Committee, other members of the Authority, 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 Committee meeting on 26 November 2020.

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.psaa.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

Executive Summary

Scope update

In our audit planning report submitted to the Audit & Standards Committee in March 2020, 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:

<u>Changes to reporting timescales</u>

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

<u>Changes to our risk assessment as a result of Covid-19</u>

As reported to the Audit & Standards Committee on 15 October 2020, we have assessed the impact of Covid-19 on our audit approach and have made the following amendments:

- **Valuation of Property Plant and Equipment -** The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment. Our audit planning report already included a significant risk related to the valuation of property, plant and equipment and investment property. Given the risks to fair value/market value assets we have extended the risk to also include assets held for sale. The scope of our procedures focus on valuation but additional considerations are required as to the level of audit evidence required to gain comfort over the reported position. Therefore, the extent of our work in this area has increased.
- **Disclosures on Going Concern** – Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- **Adoption of IFRS16** – The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.
- **Impairment of receivables:** We have considered whether there may be an increase in amounts written off as irrecoverable and impairment of year-end balances due to the increased number of businesses and residents unable to meet their financial obligations. We have reviewed significant judgements made by management but given the magnitude of materiality vs the balance in the financial statements we do not consider this to represent a heightened risk. We have considered as part of our audit of judgements and estimates.
- **Annual Governance Statement and Narrative Report:** The Annual Governance Statement will need to capture if and how the control environment has changed during the period and what steps were taken to maintain a robust control environment during the disruption. The narrative report will also need to be updated to consider the impact of COVID-19 on the 2019/20 financial statements, the related risks and as part of the future outlook.
- **Pensions:** The net pension liability and disclosures are already an area of audit focus. The volatility in the financial markets is likely to have an impact on pension assets as at 31 March 2020, and therefore net liabilities. Given the timing of the pension audit and based on our conversations with the auditors of the pension fund, we do not consider this to increase the risk rating assigned to the balances. We also note that clarifications to the judgements around McCloud and Goodwin represent more up to date information in estimating the pension liability as at the balance sheet date. The impact of this is not material to the financial statements. As such, we do not consider this to alter our assessment of risk in relation to pensions. There are additional procedures we have needed to undertake to ensure that the assessment of any impact being immaterial are accurate.
- **Value for Money:** Our risks in relation to value for money that were reported in our audit planning report remain unaltered given their nature and scope. However, given the close links between financial sustainability and going concern we will consider the risks on the Council's medium-term financial position and if there are any matters that we need to report.

Executive Summary

Scope update

Changes in materiality:

In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £25.5m, with performance materiality, at 50% of overall materiality, of £12.8m, and a threshold for reporting misstatements of £1.3m.

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 1.8% of gross operating expenditure.

We updated our planning materiality assessment using the draft financial statements 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 £26.8m. This results in updated performance materiality, at 50% of overall materiality, of £13.4m, and an updated threshold for reporting misstatements of £1.3m.

When determining the amount to be used as performance materiality we take into account considerations such as the past history of misstatements, our ability to assess the likelihood of misstatements, the effectiveness of the control environment and other factors affecting the entity and its financial reporting. Given the misstatements identified in the prior year, we determined that performance materiality needed to be set at 50% of planning materiality. This has an impact on the level of work we are required to perform, and therefore the audit fee.

Information Produced by the Entity (IPE):

We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19: The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee in section 10.

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

At the time of writing this report we are in the process of completing our audit of Sheffield City Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report. Subject to satisfactory completion of the outstanding matters set out in appendix D we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise.

We are in the process of consulting on any implications to our audit report as a result of going concern. In addition, we also note that the valuer reports include statements in relation to the risk of material uncertainty due to Covid-19 on the valuation of assets. Following the conclusion of our work we will need to assess whether there is a need to include any such reference to this within our audit opinion either in the form of an emphasis of matter or material uncertainty.

Executive Summary

Audit differences

At the time of writing this report we have identified 4 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 £5.6m. We have also identified material audit differences which have been adjusted by management. Details can be found in Section 4 Audit Differences.

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

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 and which is unknown to you. However, we have set out some control observations and followed up observations raised in the prior year in section 7 of this report.

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 significant risks related to securing financial resilience and regeneration programmes, specifically West Bar. We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. However, we have included recommendations in relation to issues impacting 2020/21 and beyond.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. 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 will report any matters arising to the audit & standards committee once our work has been completed. We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

02 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 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). We have reported on this 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 valuation of Property, Plant and Equipment and investment property and the valuation of the net pension liability. Due to the significance of these on the financial statements we have included them as a significant risk and higher inherent risk respectively in our audit strategy. 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 these balances do not impact the general fund we do not consider these to be significant estimates subject to fraudulent misreporting.

The risk manifests specifically in whether year-end adjustment journals are appropriate and supported, the application of estimates and judgements, and whether significant or unusual transactions are identified and accounted for appropriately.

What did we do?

We have:

- Identified fraud risks during the planning stages.
- Inquired of management about risks of fraud and the controls put in place to address those risks.
- Understood the oversight given by those charged with governance of management's processes over fraud.
- Considered the effectiveness of management's controls designed to address the risk of fraud.
- Determined an appropriate strategy to address those identified risks of fraud.
- Performed mandatory procedures regardless of specifically identified fraud risks, including:
  - testing of journal entries and other adjustments in the preparation of the financial statements;
  - assessing accounting estimates for evidence of management bias; and
  - evaluating the business rationale for significant unusual transactions.

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 Property, Plant and Equipment and the net pension liability has been set out elsewhere in this report.

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

Significant risk

Risk of fraud in expenditure recognition – inappropriate capitalisation of expenditure

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.

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 capitalisation of expenditure on Property, Plant and Equipment (PPE) given the extent of the Council's capital programme. We consider this to impact on the valuation of PPE balances.

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.

What did we do?

In order to address this risk we have:

- Reviewed the appropriateness of expenditure recognition and capitalisation accounting policies;
- Used our data analytics tool to identify and test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statement, specifically those that move expenditure to PPE balance sheet general ledger codes. No unusual activity has been identified as part of our review to date; and
- Performed sample testing on additions to PPE to ensure that they have been correctly classified as capital and included at the correct value to identify any expenditure items that have been inappropriately capitalised. No issues have been identified in our work completed to date.

What are our conclusions?

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

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

Significant risk

Valuation of investment properties, property, plant and equipment and non-current assets held for sale

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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 . Valuations are carried out by the Council's own specialist valuer, with external support as required 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.

We identified a number of audit findings in this area in the prior year. In addition, 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 impacting on their valuation in the balance sheet. 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.

The assets that fall within this risk are council dwellings, other land & buildings, surplus assets and investment properties. We have also included assets held for sale as a result of our risk assessment process for those areas impacted by Covid-19. Vehicles, plant and equipment, infrastructure assets and community assets are held at cost.

What did we do?

- 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.
- Sample tested key asset information used by the valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre, income streams and yields);
- 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 and AHFS. 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 2019/20 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.
- Engaged internal EY valuation specialists to review the approach of the Council valuers, consider assumptions underpinning the valuations and to provide expected valuations for a sample of assets valued during the year.
- Tested that accounting entries have been correctly processed in the financial statements.
- Reviewed the classification of assets and ensured the correct valuation methodology has been applied.

What are our conclusions?

At the time of writing this report our testing on this risk is still in progress.

We have set out the more significant misstatements identified to date on the next page.

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

Significant risk

Further details on procedures/work performed

At the time of writing this report our work on this risk remains in progress. To date we have identified the following more significant issues that we draw to your attention:

Council dwellings:

- Since management prepared the financial statements more up to date data has become available in relation to the Housing Price Index as at 31 March 2020. Applying the updated index has resulted in a £19.3 million difference whereby council dwellings are understated. This has been included as an uncorrected misstatement in section 4 of this report.

Depreciated replacement cost (DRC) valuations:

- We have identified that a number of the council's assets are overvalued due to a formula error when applying the physical depreciation factor. This has resulted in a total error of £18.4 million whereby assets are overstated.

Assets not revalued:

- Management undertake a review to ensure that asset categories are reviewed for potential revaluation if there are market conditions that point towards that based on the assets actually valued in that class in that year. At the time of writing our report, our work to gain assurance over this has identified that the assets not revalued may be materially misstated. However, we are working with management to identify the reasons for this and whether any additional work is required.

Assets under construction:

- Assets under construction should be held at cost less impairment. However, on review of the draft financial statements we identified an upward revaluation movement of £5.1 million had been incorrectly classified within this category of assets. The land asset this movement relates to was originally included as a surplus asset and revalued once the council had determined that it was to be used for council dwellings. As such, the revaluation movement should have been disclosed as a movement in surplus assets. Management has confirmed that this disclosure/classification error within the PPE note has been corrected in the financial statements presented to the audit & standards committee on 26 November 2020 and therefore we have not included this in section 4 of this report.

Other:

In addition to the above we have a number of other queries outstanding that may result in adjustments to the financial statements, or further items recorded as uncorrected misstatements. This includes potential errors in revaluations and queries over the completeness of the fixed asset register.

Our work on fair value assets (those that we consider to be of heightened risk of being impacted by Covid-19 as communicated at the audit & standards committee on 15 October 2020) is still in progress, with the most significant of these being reviewed by our internal real estate specialists to provide the audit team with assurances over the material accuracy of the figures included in the accounts.

We also note that the valuer reports include statements in relation to the risk of material uncertainty due to Covid-19 on the valuation of assets. Following the conclusion of our work we will need to assess whether there is a need to include any such reference to this within our audit opinion either in the form of an emphasis of matter or material uncertainty.

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

Higher inherent risks and other areas of audit focus

Accounting for valuation of the Local Government Pension Scheme

What is the risk?

The Local Authority 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 administered by South Yorkshire Pension Authority. 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 2020 this totalled £853.5 million (£930.7 million at 31 March 2019). The information disclosed is based on the IAS 19 report issued to the Council by the actuary. Following the outcome of McCloud in 2018/19, initial estimates suggest removing the difference in treatment of discrimination will add around £4 billion per annum to scheme liabilities across public services from 2015. The Authority, via their actuaries will need to ensure that they refine their estimate of the impact of McCloud in 2019/20 and how subsequent funding implications may impact on the triennial valuation. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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What judgements are we focused on?

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.
- 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 also understood and considered the PwC report for how your actuary has treated the impact of McCloud and Sargeant in calculating the IAS 19 liability and for any impact on the triennial revaluation.

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.

What are our conclusions?

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.

In calculating the scheme assets as at 31 March 2020 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 have used the actual investment returns as at 31 March 2020.

At the time of writing this report we are concluding our work in this area. We have recently received the reporting from the Pension Fund auditors and are in the process of reviewing this.

Higher inherent risks and 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.

What did we do?

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

- Reviewed (with the support of EY specialists where relevant) 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 and have some outstanding queries to resolve with management before we are able to conclude our work.

To date we have identified one misstatement of £6.6 million in relation to the waste PFI.

We have also identified a disclosure misstatement in relation to total payments made in year for PFIs. This disclosure originally disclosed total payments of £123 million, whereas the actual payments are £127.7 million.

Management has confirmed that this has been corrected in the financial statements presented to the audit & standards committee on 26 November 2020 and therefore we have not included this in section 4 of this report.

Higher inherent risks and other areas of audit focus

Change in payroll system

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

The Council transitioned to a new payroll system in July 2019. There is a risk that the data has not been migrated correctly between the two systems and interfaced with the general ledger.

What did we do?

In order to address this risk we have:

- Gained an understanding of the new IT environment and the impact this has on the processes associated with significant classes of transactions.
- Reviewed the pattern of payroll costs incurred on a monthly basis across the financial year for any unusual movements or activity around the time of the transfer and system go live date.
- Tested the migration of the data between the two systems to ensure it remains complete and accurate.
- Reviewed the mapping of data between the two systems.

We have reviewed the data migration reconciliations between the two systems for the three months prior to the system change (April, May and June 2019), testing a sample of items in each reconciliation to confirm its completeness and accuracy.

We note that the total differences identified in the reconciliations total £1.1m for March, £348k for April and £348k for June. All differences were explained by management and we can see that the reducing value demonstrates that the majority of the differences had been resolved before the transfer to the new system.

What are our conclusions?

Based on the results of our testing, we consider that we have sufficient assurance over the data transfer and have no significant issues to bring to your attention.

Areas of Audit Focus

Higher inherent risks and other areas of audit focus

Going Concern

What is the risk?

There is presumption that the council will continue as a going concern. However, the current and future uncertainty over government funding and other sources of council revenue as a result of COVID-19 increases the need for the Council to undertake a detailed going concern assessment to support its assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. The council will need to revise its financial plans and cashflow, liquidity forecasts, known outcomes, sensitivities, mitigating actions and key assumptions. Specific disclosures are also required within the financial statements on going concern and in particular any material uncertainties.

What judgements are we focused on?

We focused on key assumptions underlying Management's going concern assessment; in particular the impact on the liquidity and use of reserves for the Authority over the period of at least 12 months from the date of approving the final audited financial statements for the year ended 31 March 2020 (i.e., but to the end of November 2021).

What did we do?

We have:

- Reviewed Management's going concern assessment, including the cash flow forecast. We challenged key assumptions and sensitivity analysis performed.
- Reviewed the Authority's need to borrow over the going concern period.
- Reviewed and challenged the disclosures management have made in the financial statements with respect to the applicability of the going concern basis of accounting and the impact of Covid-19 on the Authority.
- Complied with EY's internal risk management consultation arrangements which have been put in place in response to the increased risk posed by the C-19 pandemic.

What are our conclusions?

Typically, management use the medium-term financial strategy to support their use of the going concern basis of accounting, and the fact that there is no known governmental decision to cease the services of the council. In light of the global C-19 pandemic, Management have considered the additional cash flow and cost/income implications through to 31 March 2022 which is beyond 12 months from the expected accounts approval date.

The lowest forecast cash balance occurs on 31 March 2022 when the balance is at £69 million. Within the 12 month going concern period the lowest forecast balance is £104 million. This is a combination of both cash and investments. The cash balance is regulated to as low a balance as possible with short term deposits and investments being utilized to maximise returns. Even if the cash were to dip negative for a short period (before routine grant/council tax/NNDR receipts came in), the council has the ability to borrow in the short term. The capital development programme includes a significant level of internal borrowings, which management could also convert to external borrowings, freeing up additional cash reserves. We therefore do not consider there to be a significant liquidity concern which would give rise to a material uncertainty in respect of the going concern basis of accounting.

We note that the council has confirmed via its analysis that they have sufficient reserves through to March 21/22 (i.e. 16 months post signing) but that there would be difficulties in setting a balanced budget for 22/23 should there be no further government support and no additional savings or mitigations are put in place. We have considered the medium term financial planning within our value for money work within section 5.

Based on our review of management's assessment and consideration of cash/liquidity throughout the period to 31 March 2022 and the available reserves, we conclude that the going concern basis of accounting in the production of the 31 March 2020 financial statements is appropriate and there is no material uncertainty in this regard.

At the time of writing this report we have requested amendments to the council's disclosure in relation to going concern and are undertaking our internal consultation requirements. Once these are finalised we will confirm any implications on our audit report.

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 2020 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,
- the related notes 1 to 45,
- 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,
- Accounting Policies.

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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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Sheffield City Council as at 31 March 2020 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 2019/20.

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 authority 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 2019/20, set out on pages [x] to [x] and [x] to [x], 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.

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 April 2020, 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 2020.

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;

Our opinion on the financial statements

- 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 18, 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 2019/20, 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 April 2020, as to whether Sheffield City Council had proper arrangements to ensure it took properly informed 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 Sheffield City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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.

Certificate

We certify that we have completed the audit of the accounts of Sheffield City Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

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:

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 misstatements greater than £13.4 million which have been corrected by management that were identified during the course of our audit:

- £15.1 million adjustment to reduce grant income and increase grants received in advance. This relates to 2020/21 S31 business rates payments made by government before 31 March 2020 to assist with local authority cashflow following the declaration of Covid-19 as a global pandemic.

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. None of these have had an impact on the general fund.

Disclosure misstatements:

We have identified an number of disclosure misstatements during our review of the financial statements which we have report to management. We are assessing whether the financial statements presented to the audit & standards committee on 26 November 2020 have been updated to include all required disclosures.

As identified in section 2, the going concern section requires updating to contain more information on managements assessment. As the global pandemic was declared prior to the balance sheet date the impact of Cvoid-19 should also not be disclosed as a post balance sheet event. We will work with management to ensure this is updated prior to signing the financial statements.

Any uncorrected disclosure misstatements that are not amended (and are not considered to be material) will be included in the letter of representation. We will provide a summary of these in our final audit results report.

Audit Differences

Uncorrected misstatements 31 March 2020 (£000)	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)
Errors					
Known differences:					
▸ Adjustment to reflect actual schools balances as opposed to estimates	3,158			(3,158)	
▸ Adjustment to correct for recharges that had not been netted out of the accounts – Cr to expenditure and Dr to income.	(3,199) 3,199				
▸ Adjustment to reflect updated HPI data available for 31 March 2020	(19,277)		19,277		
▸ Adjustment for incorrect valuation of DRC assets	18,447		(18,447)		
Balance sheet totals			830	(3,158)	
Income effect of uncorrected misstatements (before tax)	2,328				
Cumulative effect of uncorrected misstatements before turnaround effect	2,328	(2,328)			
Turnaround effect. (See Note 1 below).	-				
Cumulative effect of uncorrected misstatements, after turnaround effect	2,328				

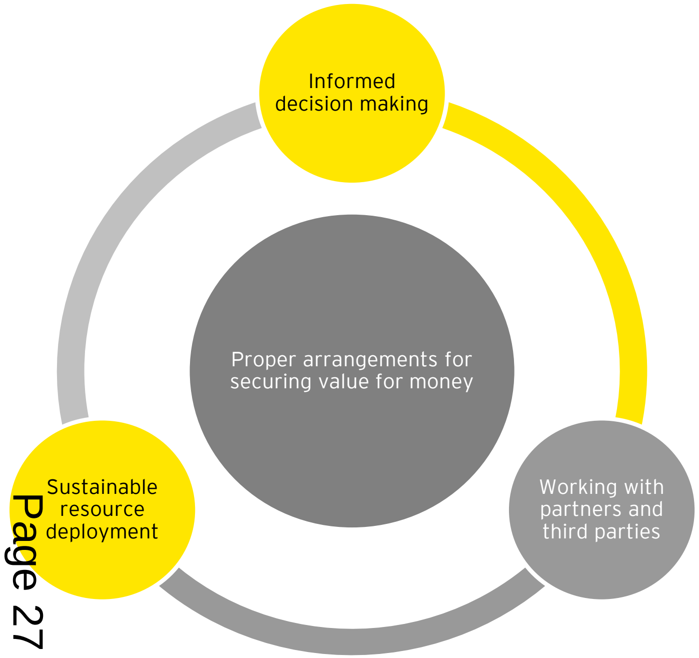
Uncorrected misstatements in the statement of cash flows

The above will also have an impact on the relevant line items within the statement of cash flows except for the recharges adjustment identified above.

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period.

05 Value for Money

Value for Money



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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 2019/20 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.

Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19.

This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusion

We identified two significant risks around these arrangements. The tables below present our findings in response to the risks in our Audit Planning Report and any other significant weaknesses or issues we want to bring to your attention. No additional risks have been identified since our audit planning report.

We are satisfied that the Council has appropriate arrangements in place with regard to the identified significant risks. We therefore expect having no matters to report in our audit opinion about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

However, we have identified matters to bring to the attention of the audit & standards committee in relation to future years.

Value for Money Risks

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.

What is the significant value for money risk?	What arrangements did the risk affect?	What are our findings?
Regeneration programmes The Council continues to invest significantly in the regeneration of the city. This has included the underwriting of a 40 year lease at West Bar. With national declines in the value of office and retail space, it is important that the Council has appropriately assessed the risks to their regeneration plans both prior to approving them, and then throughout, to ensure that they remain fit for purpose and emerging risks are being identified and mitigated.	Take informed decisions / Deploy resources in a sustainable manner	As part of our audit procedures we have: ▸ Reviewed the decision making process for the approval of the West Bar agreement, including any associated due diligence. We noted that the Council prepared a base case and worst case scenarios. ▸ Confirmed that no associated transactions have been included in the current MTFS associated with West Bar. ▸ Confirmed that no associated risks have been included in the risk register associated with West Bar. Whilst the council has entered into a conditional agreement for the West Bar development this includes a long stop date whereby the council can terminate the agreement within 12 months of signing it which would incur a termination fee of £500,000. Per our discussions with management we understand that as the Council has not entered into the agreement on an unconditional basis then it does not have any direct risk in relation to the scheme except for the termination costs of £500,000 which have been earmarked for funding from the Corporate Investment Fund. The council are planning to undertake a risk based analysis of the relative risk of entering into the 40 year lease against the risk to economic regeneration of the West Bar area and the city as a whole. The decision will be subject to Cabinet Approval in early '21. Should the agreement go ahead then a detailed risk register will be maintained. **Given the recent pressures created by Covid-19 and ongoing uncertainty in relation to funding and the medium term financial position (see below) we recommend that management ensure that the agreement is thoroughly reviewed and risk assessed as currently planned. The analysis should ensure robust due diligence, financial analysis and consideration of the other regeneration schemes underway such as Heart of the City. This should be reviewed and approved by Cabinet and be completed within the 12 month longstop date.**

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Value for Money Risks

What is the significant value for money risk?	What arrangements did the risk affect?
Securing Financial Resilience: 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 whilst maintaining services for the local population. As at 31 December 2019 the Council was forecasting a £1.5m overspend for 2019/20. This included a £6.8m overspend within the Children and Families Service which was expected to improve over the course of the rest of the year, as measures to control demand and spending have further effects. The 2019/20 Budget approved £29.7m of savings of which the overall amount of savings considered at risk of non-delivery was £5.0m, representing 17% of the original approved amount. This amount worsened by 2% from 15% at Month 6. At Month 9, work was ongoing to secure the delivery of challenging savings and to identify other mitigations. 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 currently has a reasonable level of reserves, the current trajectory of overspending is not sustainable in the medium to long term and services will need to be tackle pressures and meet savings requirements, supporting the Council to bring the budget back to balance.	Deploy resources in a sustainable manner

What are our findings?

Our approach has focused on:

- Considering the 2019/20 outturn performance and impact on the current MTFS.
- Considering the appropriateness of key assumptions used by the Council in setting the budget and Medium Term Financial Strategy.
- Considering current financial standing and the availability of reserves to fund future expenditure.

2019/20 outturn position: The Council's revenue budget as at 31st of March was underspent by £534k which is an improvement on the position reported at month 9. Within the underspend is an overspend of £6.2 million in relation to Children and Families Service. The Place portfolio was also overspent due to pressures on leisure services and lost car parking income following the impact of Covid-19. Additional government funding received prior to the end of the financial year as well as a reduction in spend in other areas meant that the impact was off-set.

Budget setting and Medium Term Financial Strategy: The Council has an established process for setting its budget. The 2020/21 budget was approved by Council in March 2020 and reported that the Council's cumulative budget gap would be circa £80m by 2023/24. The budget for 2020/21 was set on the assumption that there would be no draw down on reserves during the year with an additional £4 million of savings being identified to balance the budget. The MTFS was approved in October 2019. We have reviewed the significant assumptions made in the MTFS and the risks reflected within it, which are consistent with our expectations.

Current level of reserves:

The Council currently has a level of general fund reserves (£13.2 million at 31 March 2020) which represents 3.0% of the 2019/20 net budget requirement of £420 million. This is an increase compared to the prior year and is in line with the minimum prudent level recommended by the Executive Director of Resources. The Council also has in place substantial levels of usable earmarked reserves which 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. The Council has over £200m of earmarked reserves, of which it considers £50 million could be deployed to support its revenue position, either in the form of recovering from the pandemic or to support the short-term budget position until longer term transformational schemes take effect.

Value for Money Risks

What are our findings? (continued)

Current level of reserves (continued):

The council have performed benchmarking of the level of reserves available as part of the 2020/21 budget setting exercise. Whilst the level of unearmarked general reserves is at the lower end of expectations, the overall level of reserves available, including those accessible within earmarked, is at a level that provides the council with adequate levels should one off risks be encountered in the short to medium term. This level of reserves and assessment is based on the assumption that the Council continues to achieve its projected savings plans and delivery of balanced budgets.

2020/21 and the impact of Covid-19: The Council has prepared several assessments since the start of the pandemic in the UK. These include the 2019/20 outturn report, the May 2020 financial monitoring report and then the update to the MTFS and month 6 reporting in October and November 2020. The forecast overspend being reported as at September 2020 is £16.2 million against budget, an improvement of £7.2 million since the reporting at month 2 as a result of the confirmation of £10m of additional government funding. Underlying cost and income pressures have increased by nearly £3m. Since then management have been informed of an additional £11.8 million of additional government support reducing the forecast overspend to £4.4 million. Management are expecting to be able to reduce this further to achieve close to breakeven. However, any overspend would need to be met through reserves.

The council have updated the MTFS using the month 6 position to update members on the latest financial forecasts for the period 2021/22 to 2024/25. COVID-19 has increased the Council's costs, both in meeting the immediate costs of the crisis, but also expected higher costs in the future e.g. additional longer-term costs of care services, support for leisure providers and reduced council tax and business rates income. The cumulative gap increases over the next 4 years to £108.5m. After savings, the gap remains close to £71.7m. The 2021/22 net gap is currently forecast at £38.8m despite a release of the £19.4m of corporate contingencies. The council have developed two scenarios:

- A best-case assumes that SCC will receive inflationary uplifts to its government funding and business rates income, as well as the ability to raise a Social Care Precept in each of the years of the MTFA. It also assumes some additional, above inflation budget support for 2021/22. This reduces the budget gaps significantly, from a 4-year total of £71.7m in the base case to £18.6m.
- The worst-case assumes that an economic downturn reduces the resources available to Local Authorities. This planning assumption anticipates a reduction in RSG from £37m to zero over the years 2022/23 to 2024/25. This increases the 4-year budget gap to £108.7m.

Whilst there are a number of risk, the arrangements in place in 2019/20 are considered to be adequate. As can be seen from the above, management have a process for budget setting and financial monitoring that occurs regularly throughout the year. The council has an understanding of its pressure points and actively monitors and adjusts not only the in year forecasts but those for the medium term as well. 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 around the arrangements in place during 2019/20. Based on the factors and consideration of arrangements set out above, we consider: ***The Council's arrangements for securing value for money, in relation to its arrangements for deployment of resources to achieve planned and sustainable outcomes are adequate.***

Other matters to bring to your attention

Looking forward/ Recommendations

During our audit we have identified the following significant future challenges that may impact the council's ability to demonstrate 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Whilst the Council does generally have a good track record of delivering financial performance the council has significant budgetary pressures in the medium term. The council continues to face significant financial challenges in relation to the people portfolio driven by historic overspends and difficulties in achieving recurrent savings due to increasing demand for services. In addition to this, the council is now experiencing a significant demand for financial support to maintain leisure services within the city. This is only being amplified by the impact of Covid-19 and uncertainty of future government funding.

The forecast use of reserves and overall budget gap in the medium term is not sustainable and as indicated by the council in their reporting of the updated MTFS, ensuring the ongoing viability will have to involve the prioritisation of resources, identification of additional savings, demand management controls and the effective and prudent utilisation of the Council's reserves.

Overall the Executive Director of Resources and Section 151 officer has reviewed the adequacy of reserves, and, on the basis of the information currently available, he feels the impacts on reserves would only be sustainable for 2021/22. Therefore, the medium to long term financial position is, in his view, not sustainable without further savings or additional funding.

We also note that over the next 12 months the council will see changes in its leadership via a new Chief Executive and Leader of the Council.

Given the above we have made the following recommendations:

- **Robust monitoring and challenge will need to be maintained over the council's forecasting for in year financial performance and also in the medium term. The robustness of assumptions underpinning the savings will need to be kept under review, delivery monitored and where appropriate mitigating actions identified.**
- **Whilst the council currently has adequate reserves the extent of financial challenge puts these at risk. The scale of the council's operations means that reserves have the ability to diminish quickly and in the current environment it will be difficult for these to be rebuilt. Therefore, its important that the council ensures that decisions being made now are robustly challenged and supported by clear analysis to ensure that they are future proofing the finances of the council whilst continuing to transform and deliver services.**
- **Increasing pressures associated with leisure services and people portfolios need to be kept under review, with consideration given to how services can be transformed to manage financial pressures whilst maintaining services to the public. The increased risks associated with leisure services which have become more prevalent in 2020/21 will need to be reviewed carefully given the broader implications of the arrangements with service providers.**
- **Decision making within the council will be incredibly important. The council will be subject to change through the appointment of a new leader and CEO over the next 12 months which means that there needs to be clear decision making and ownership of the MTFS by Cabinet and Council.**

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 2019/20, 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 2019/20 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.

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 Authority 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 Authority, 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.

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 will report any matters arising to the audit & standards committee once our work has been completed.

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 Authority’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; and
- Consideration of laws and regulations.

We have no matters to report that have not already been covered elsewhere in this report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

It is the responsibility of the Authority 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 the Authority 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 considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention/details of issues noted.

At the time of writing this report, 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. However, wish to report the following area where improvements could be made to the operation or design of controls.

Key:

- A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6–12 months.
- Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

Assessment of Control Environment

Area	Schools balances	Rating	
Observation	Consistent with the prior year 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.		
Management comment			

Area	Starters and leavers testing	Rating	
Observation	During our testing of starters and leavers we identified: ▸ a contract for a new starter which shows the employee signed it on the 26th November 2019, however the employee started their role on the 14th October 2019. ▸ Anew starter who commenced work and had been paid prior to a contract being issued and signed.		
Management comment			

Area	Exit packages	Rating	
Observation	During our testing of exit packages we have not been able to obtained appropriate audit evidence to support the agreement date for exit packages. The majority of this evidence is held in paper format in the SCC office building. Given restrictions in place due to the pandemic we were unable to evidence to support the inclusion of balances within the financial statements note.		
Management comment			

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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 2019/20, our use of these analysers in the Authority'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

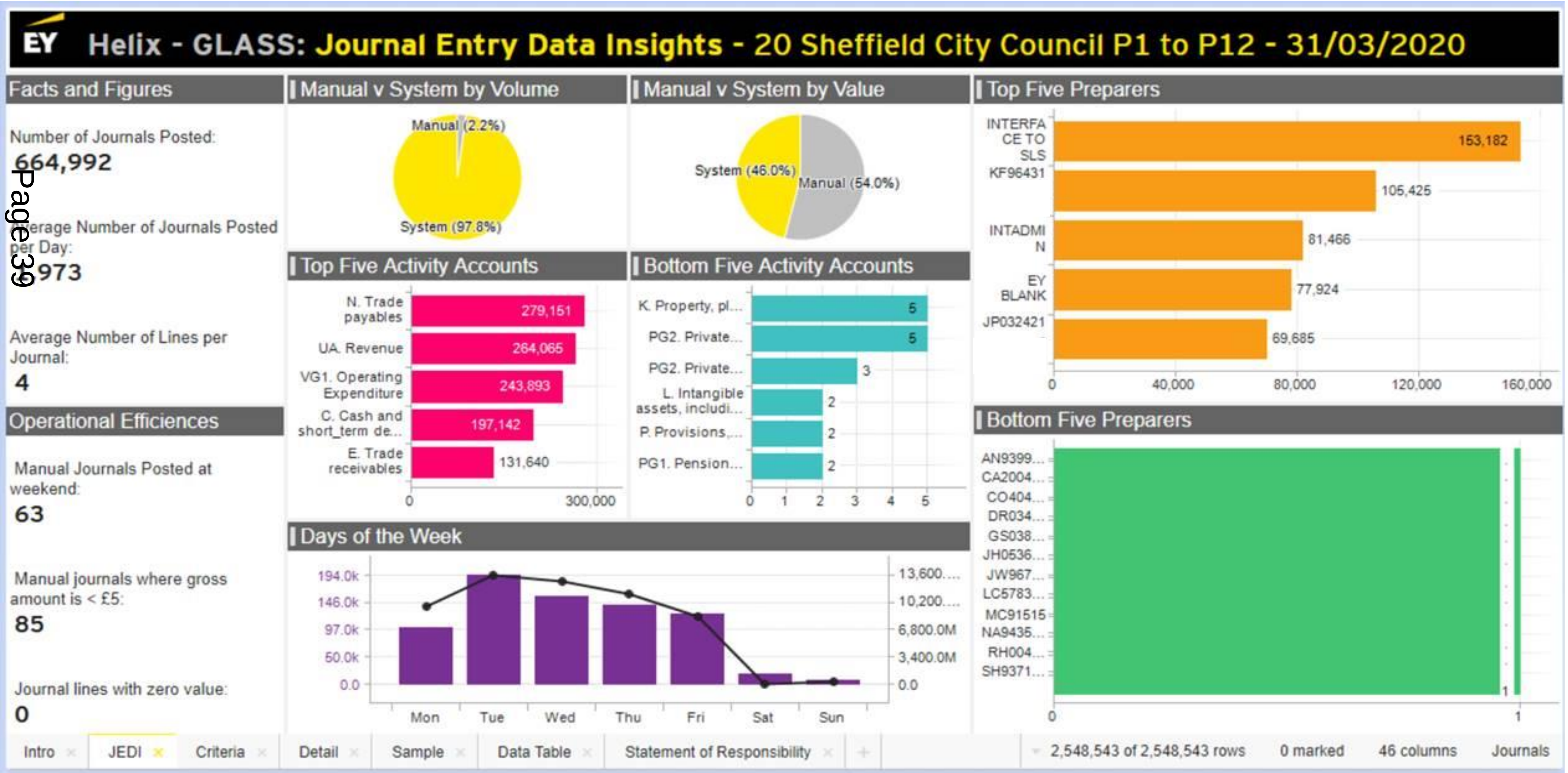
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically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

Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2019/20. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



Journal Entry Testing

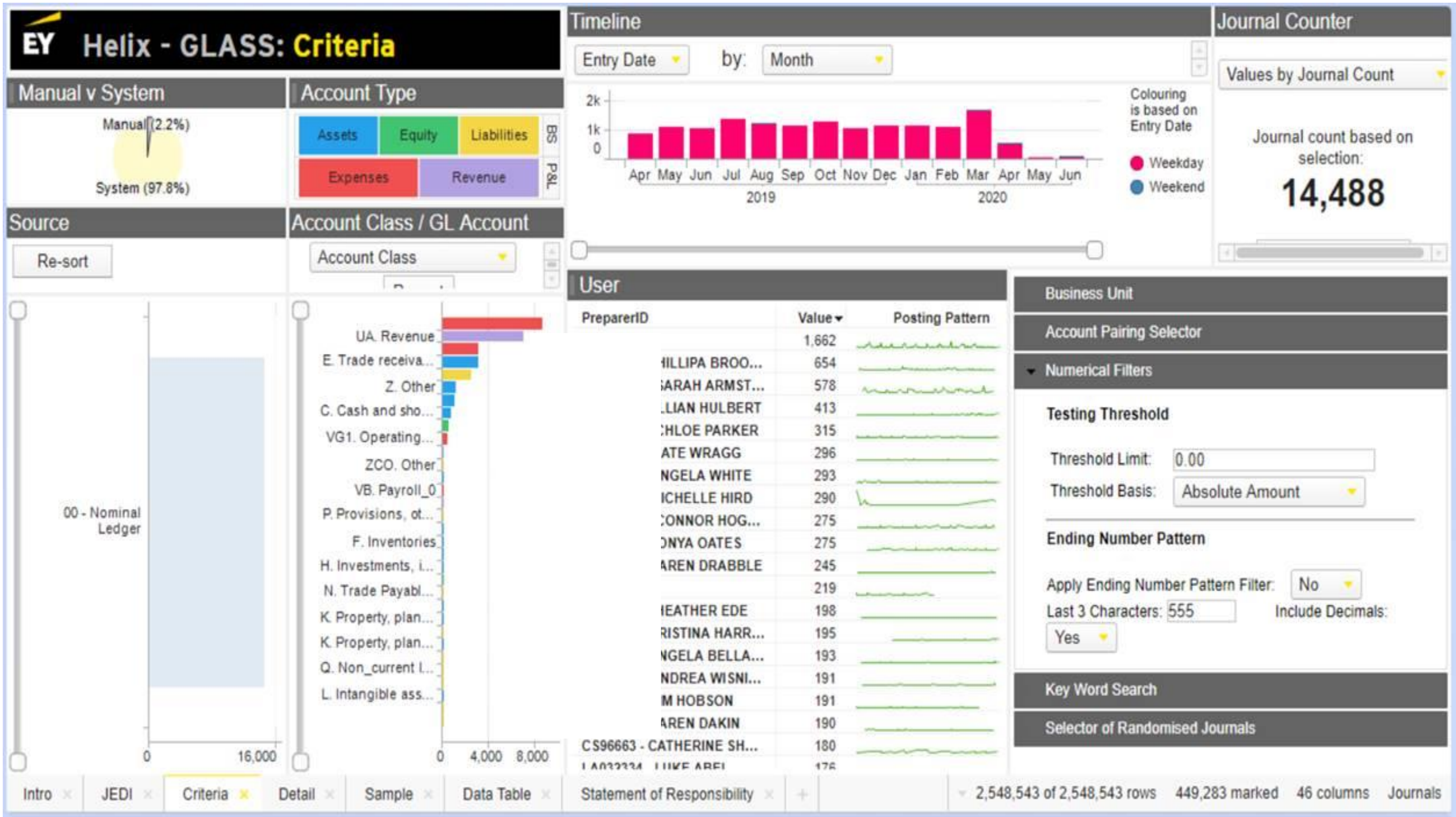
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2020



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 10 March 2020. We complied with the APB Ethical Standards. 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 that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the audit & standards committee on 26 November 2020.

We confirm we will be undertaking non-audit work outside of the Statement of responsibilities of auditors and audited bodies as issued by the Public Sector Audit Appointments Ltd. We have adopted the necessary safeguards in our completion of this work. This work relates to housing benefits as set out in our audit planning report. We have adopted the necessary safeguards in our completion of this work and complied with Auditor Guidance Note 1 issued by the NAO in December 2017.

As part of our reporting on our independence, we set out a summary of the fees you have paid us in the year ended 31 March 2020.

	Planned fee 2019/20 £	Planned fee 2019/20 £	Final Fee 2018/19 £
Scale fee (Note 1)	143,988	143,988	143,988
Additional fees: (Note 2)			
- Pension testing	TBC	TBC	17,725
- GMP and McCloud	TBC	TBC	3,479
- Property, Plant and Equipment	TBC	TBC	11,210
- Schools balances	TBC	TBC	2,498
- Financial statement amendments and prior year adjustments	TBC	TBC	1,460
- Impact of reduced materiality	TBC	TBC	
- PFI	TBC	TBC	
- Change in payroll system	TBC	TBC	
- Value for Money	TBC	TBC	
- Impact of Covid-19	TBC		
Total audit	**TBC**	**TBC**	**180,360**
Non-audit services : - Housing Benefits	34,000	TBC	27,400
- Teachers Pensions (note 3)	-	-	9,500
Total non-audit services	**TBC**	**TBC**	**36,900**
Total fees	**TBC**	**TBC**	**217,260**

(1) We wrote to management and the Audit & Standards Committee Chair on 10 February setting out our considerations on the sustainability of UK local public audit. A base fee of £143,988 has been prescribed by PSAA for the 2019-20 audit but we will be having further discussions with management and the Committee on the level of scale fee variation to be applied. For 2019/20, the scale fees are impacted by a range of factors which will result in additional work. We have provided management with an estimate of the potential additional fee based on our understanding of the work requirements, however, the actual fees may be higher than this. We are still in the process of discussing and agreeing these with management and will provide an update once this process has been finalised.

Subsequent to this, as a result of the impact of the Covid-19 pandemic, there has also been additional work required in respect of our consideration of the going concern basis of accounting, as well as increased risks and work as set out in our update to the committee in October 2020. The impact of remote working has created additional time and costs in completing the audit.

We will discuss these additional costs with management and provide indicative fee levels for each of these areas. We will report the final levels to you upon conclusion of our work and agreement with management.

(2) The 18/19 Code work includes an additional fee of £36,372, which relates to additional work reviewing the above listed areas. We are in the process of seeking approval from the PSAA.

(3) We will agree fees with you for 2019/20 if we are engaged and prior to commencing the 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 Authority, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 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 relationship	Related independence threat	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 2019/20. Our anticipated fees ae £34,000.	Self review threat – figures included in the return are also included in the financial statements.	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. 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. 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.

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Services provided by Ernst & Young

The previous page includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed above 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.

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
    - Tax advocacy services
    - Remuneration advisory services
    - Internal audit services
    - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019
Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020: **https://www.ey.com/en_uk/who-we-are/transparency-report-2020**

10 Appendices

Appendix A

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 Heritage Assets Investment Properties	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A. Only change relates to short term investments where the balance was material at 31 March 2020.
Short Term Investments	Substantively tested all relevant assertions	Immaterial - Substantively tested assertion for presentation and disclosure	
Debtors (short and long term) Creditors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Cash and Cash Equivalents Assets Held for Sale Net Pension Liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Borrowing (short and long term) 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	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A
Intangible Assets Inventories	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	N/A

Appendix B

Summary of communications

Date	Nature	Summary
23/01/2020	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 2019/20 audit, including relevant risks.
18/02/2020	Meeting	Senior members of the audit team, met with the management team to discuss initial planning considerations.
10/03/2020	Report	The audit planning report, including confirmation of independence, was issued to the Audit & Standards Committee.
25/03/2020	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 2019/20 audit, including relevant risks and immediate impact of Covid-19.
16/04/2020	Report	Consideration of the audit planning report by the Audit & Standards Committee.
06/05/2020	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.
26/06/2020	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. This include the revised timetable for the preparation of the accounts and completion of the audit.
29/07/2020		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 September to November	Meeting	Senior members of the audit team, met with the management team during the final audit to discuss progress and emerging issues.
07/10/2020	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.
15/10/2020	Report/ meeting	Update provided to the Audit & Standards Committee on the impact of Covid-19 on our risk assessment as well as audit progress to date.
11/11/2020	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.
23/11/2020	Report	The audit results report, including confirmation of independence, was issued to the Audit & Standards Committee.
26/11/2020	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.

Appendix C

Required communications with the Audit & Standards Committee

There are certain communications that we must provide to the Audit 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
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
Significant findings from the audit	▸ 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	Audit results report
Fraud	▸ Enquiries of the audit & standards committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▸ 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 Authority, any identified or suspected fraud involving: 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

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Public Interest Entities	For the audits of financial statements of public interest entities our written communications to the audit committee include: ▸ 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 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 and Audit results report
Misstatements	▸ 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

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ 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
Subsequent events	▸ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: ▸ 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 Authority	Audit results report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report We are awaiting confirmations in respect of Lloyds schools balances.
Consideration of laws and regulations	▸ 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 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 committee may be aware of	Audit results report We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report/Annual Audit Letter

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		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▶ 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 Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019: ▶ 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 committee should also be provided an opportunity to discuss matters affecting auditor independence	Audit planning report and Audit results report

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Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Written representations we are requesting from management and/or those charged with governance	▸ Written representations we are requesting from management and/or those charged with governance	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	▸ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit results report
Auditors report	▸ Any circumstances identified that affect the form and content of our auditor's report	Audit results report
Fee Reporting	▸ 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 and Audit Results Report
Certification work	▸ Summary of certification work	Certification Report

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
PPE valuations	‣ Assets held for sale – classification queries for 3 assets ‣ Investment property – EYRE review and queries ‣ Queries on PFI adjustment to fixed asset register ‣ HRA valuations – outstanding audit evidence ‣ Assets not revalued ‣ Fair value valuations – EYRE review and queries ‣ DRC valuations ‣ Number of other small queries	EY and management
Resolution of other queries in relation to:	‣ Officer remuneration ‣ Capital grants received in advance ‣ HRA bad debt provision ‣ Unrecorded liabilities ‣ PFI ‣ Grants and contributions ‣ Collection fund and NNDR provisions ‣ Payroll leavers testing ‣ MRP ‣ External confirmations for schools bank accounts held with Lloyds	Management
Closure of audit work and internal review procedures, with the most significant areas being in relation to:	‣ Non-current assets (i.e. PPE, IP etc) ‣ Journals ‣ Income and Expenditure ‣ Creditors and debtors ‣ PFI ‣ Cash flow statement and other financial statement disclosures ‣ Related party Transactions ‣ Pensions ‣ HRA and collection fund ‣ Treasury balances	EY and management
Going concern consultation	‣ Finalisation of going concern disclosures ‣ Consultation requirements to inform our opinion	EY and management

Appendix D

Outstanding matters (continued)

Item	Actions to resolve	Responsibility
Final Statement of Accounts	‣ Incorporation of EY review comments on disclosure notes ‣ EY Review of the changes made to the Statement of Accounts	EY and management
Management representation letter	‣ Receipt of signed management representation letter	Management and audit & standards committee
Subsequent events review	‣ Completion of subsequent events procedures to the date of signing the audit report	EY and management
Whole of Government Accounts	‣ Audit work has not yet been started. We will need a final version of the WGA once the financial statements adjustments have been finalised.	EY and management

Management representation letter

Management Rep Letter

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 2020. 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 2020 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 2019/20.

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), 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

1. 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 2019/20.
2. 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 2019/20, and are free of material misstatements, including omissions. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule (Appendix 1), 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 we do not consider the financial statements to be materially misstated.

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

1. 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.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. 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.
4. 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;
   - 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.

Management Rep Letter

C. Information Provided and Completeness of Information and Transactions

1. 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.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
3. 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: DATE.
4. 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.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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.
7. From the date of our last management representation letter through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

1. 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.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related to 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.
4. 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).
5. 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

1. Other than described in Note *2* to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report by the Executive Director of Resources, the Statement of Responsibilities and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Going Concern

1. Note X to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

H. Ownership of Assets

1. 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.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.

Management Rep Letter

3. 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.
4. 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

1. 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

1. 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 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

1. 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 2019/20.
2. 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.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete,including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.
5. 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 2020, and that they are not materially misstated.
6. We confirm that for assets carried at historic cost that no impairment is required

L. Retirement benefits

1. 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 Assets and Liabilities

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of pension assets and liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the 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 Assets and Liabilities

1. 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 2019/20.
2. We confirm that the significant assumptions used in making the valuation of the pension assets and liabilities appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete,including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

P. Valuation of NNDR appeals provision

1. 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 2019/20.
2. 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.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate is complete,including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

Q. Major Sporting Facility

1. We confirm that we have 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.
2. 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,

____

Eugene Walker

(Executive Director of Resources / Section 151 Officer)

Date:

____

Councillor Sioned-Mair Richards

(Chair of the Audit & Standards Committee)

Date:

Appendix 1 – Uncorrected misstatements:

TBC

Appendix F

Accounting and regulatory update

Future accounting developments

Since the date of our last report to the audit & standards committee, there have been a number of exposure drafts, discussion papers and other projects issues. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Sheffield City Council
IFRS 16	▸ The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.	▸ Sheffield City Council will need to ensure that all lease arrangements entered into are identified and quantified (including for the comparative period) prior to the new implementation date ▸ Consider whether appropriate systems and processes are in place to embed the requirements of the new accounting standard going forward.

Regulatory update

There have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Sheffield City Council
Code of Audit Practice 2020	▸ The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	▸ The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. ▸ Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	▸ The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. ▸ This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	▸ Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. ▸ Further updates will be provided when possible.

Reflections from the Redmond Review

Independent Review into the Oversight of Local Audit and the Transparency of Local Authority Financial Reporting

Published on the 8th September 2020, Sir Tony Redmond's findings and recommendations from his independent review provides a significant opportunity to shape the future sustainability of local government financial reporting and auditing. We believe this will help ensure audit continues to meet the evolving needs of local authorities, the public, and the public interest.

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Guiding principles for reform

We believe reforms should be guided by the following principles:

- Reforms should enhance, or at least should not create risks to, the quality of financial reporting and external audit.
- The importance of the multidisciplinary audit firm model, to enable local auditors to respond efficiently and effectively to the increased reporting complexity, risks and financial resilience pressures we have seen facing the public sector pre and post Covid-19.
- There should not be a two-tier system of generally accepted accounting and auditing standards between the public and corporate sectors.
- To be effective and sustainable, reforms need to focus on the public sector financial reporting and external audit ecosystem as a whole.

Appendix G

Reflections from the Redmond Review (continued)

Taking our guiding principles, we broadly welcome the Redmond review and proposals, in particular:

Quality of financial reporting and external audit

- The recognition that all stakeholders in the ecosystem have a role to play to improve accountability, transparency and sustainability. This includes improving the effectiveness of Audit Committees, strengthening the training skills, capacity capability and attractiveness of the public sector finance and audit professions.
- His conclusion that the current procurement and fee structure does not support sustainable audit quality. We have provided you with our perspectives on how baseline audit fees need to change to take account of your risk profile, complexity as well as the regulatory and professional context which drive our audits.

Reforming the public sector financial reporting and external audit ecosystem

- Establishing the Office for Local Audit Regulation (OLAR), which provides a "system leader" and will bring clarity to the existing framework for local authority audit.
- The importance of MHCLG establishing a liaison committee of all key stakeholders to oversee reforms. To begin with MHCLG should take urgent action to implement primary legislation to establish OLAR, revise the timetable for financial reporting and revisit the procurement and fee structure for public sector audit.

Multidisciplinary audit firm model

- The importance of the auditors work to critically assess the financial resilience and viability of public sector bodies and his proposals on how this assessment could be enhanced within the NAOs code of audit practice.

Safeguarding professional accounting and auditing standards

- The need for CIPFA/LASAAC to revisit the accounting code and introduce summarised accounts. We agree that there is a need for more proportionality in the Code which also sets out the expectations of practitioners and auditors and how this could be applied in areas such as pensions and asset valuations. However, we believe that any future proposals on the accounting code should not create a two-tier system.

What are we doing in the meantime?

1. Planning for a 30 September financial reporting target date for 2020/2021 accounts, integrated with our NHS work.

2. Implementing the new NAO code and changes to our VFM conclusion work and reporting for 2020/2021 audits. We will also work with the NAO and other audit suppliers on any refinements to how auditors assess financial resilience.

3. Continuing to engage with and influence MHCLG, NAO, PSAA CIPFA/LASAAC, FRC and other key stakeholders on the actions required to implement the Redmond proposals as swiftly as possible and how these effectively align to the broader package of audit reforms which BIES will consult on later this year.

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