Sheffield City Council
Audit results report

Year ended 31 March 2022

September 2023

Building a better working world

Private and Confidential

13 September 2023

Sheffield City Council.
Town Hall.
Pinstone Street.
Sheffield

Dear Audit and Standards Committee Members,

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Standards Committee. This report summarises our preliminary audit conclusion in relation to the audit of Sheffield City Council for 2021/22, building on the position presented in March 2023. Subject to concluding the outstanding matters listed in our report, we expect to issue an unqualified audit opinion on the financial statements in the form at section 3 of this report. However until work is complete, further amendments may arise. Changes from the previously presented report have been highlighted in green.

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

This report is intended solely for the use of the Audit & Standards Committee, other members of the 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.

Yours faithfully

Hayley Clark

Partner

For and on behalf of Ernst & Young LLP

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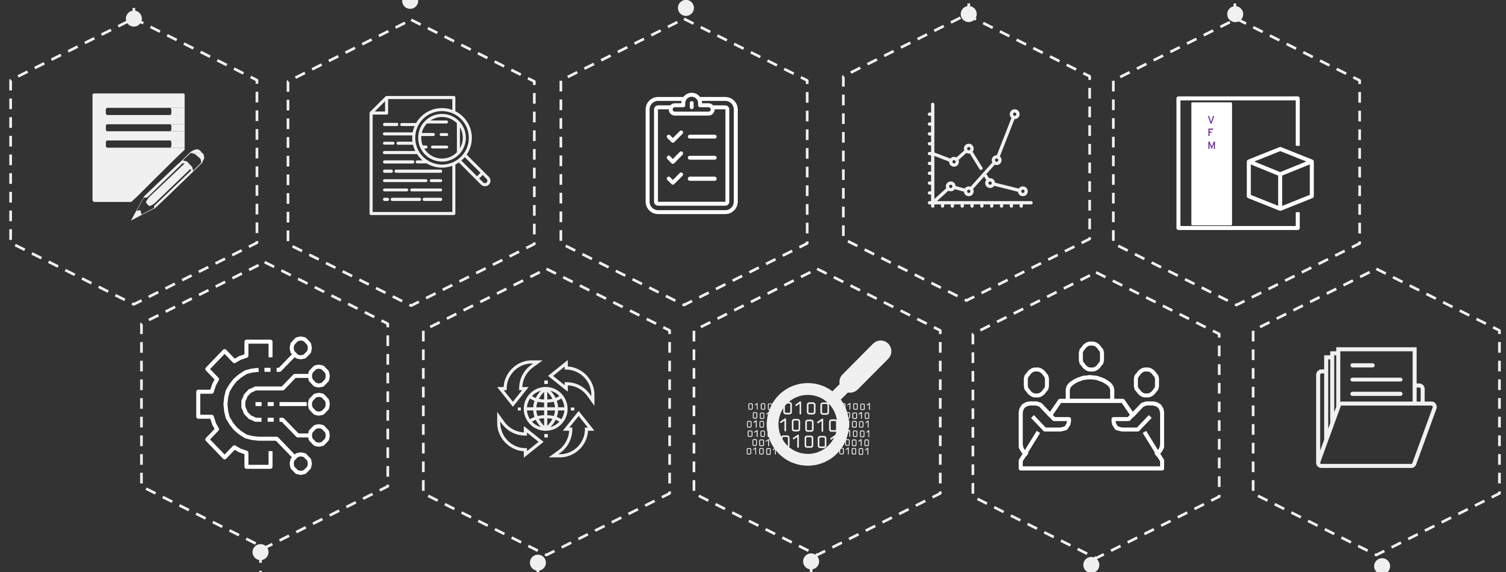

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk).

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 / Terms and Conditions of Engagement. 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 Hywel Ball, 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 tabled at the September 2022 Audit and Standards Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan.

Status of the audit

We have substantially completed our audit of Sheffield City Council's financial statements for the year ended 31 March 2022 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 03. However until work is complete, further amendments may arise:

- We are awaiting the report of the auditor of South Yorkshire Pensions Authority in respect of updated membership testing to support the updated IAS19 disclosures the Council has been required to make following the release of the 2022 Triennial valuation of the pension fund, which was released on 1 April 2023;
- Partner review of areas of audit work;
- Completion of subsequent events review;
- Receipt and review of the approved financial statements and signed management representation letter; and
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts (WGA) submission. It should be noted that we cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's WGA consolidation pack.

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Following the presentation of our report in March, the above mentioned triennial valuation was formalised, which created an adjusting post balance sheet event for authorities. Authorities therefore needed to consider whether adjustments were material and adjust their financial statements accordingly. Sheffield City Council determined that the movements presented by availability of the new information, were of sufficient magnitude that adjustments were necessary. The work to audit these disclosures has required further work from auditors, including actuarial specialists; and also, due to the material change in membership data between the 2019 and 2022 triennials, it has been necessary to obtain further assurance on membership data from the pension fund auditor. We expect to receive their report by the end of September 2023.

Audit differences

Section 4 of this report sets out the audit differences arising from our audit. Unadjusted amendments impacting the Comprehensive Income and Expenditure Statement total a £1.42m deficit, with unadjusted items impacting Other Comprehensive Income by £13.16m, being an understatement of income.

We also report the impact of those unadjusted differences from the prior year that turnaround into the current year. Taking both the current year and prior year differences the impact on the Comprehensive Income and Expenditure Statement is an increase to income of £1.34m, with unadjusted items impacting Other Comprehensive Income by £4.88m, being an understatement of income.

We have also agreed a small number of other minor disclosure amendments with management which have no impact on the financial results reported for the year.

Executive Summary

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 where the council has exercised accounting judgements which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified in section 02 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 and Standards Committee.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

During the audit, we identified sixteen control observations in the systems of internal control to bring to your attention in section 7.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability - How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance - How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness - How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

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 Plan, we identified significant risks concerning financial sustainability and regeneration schemes. We have included in Section 05 the detailed work we carried out in response to these risks.

Based on the work we have completed to date, we expect to issue a unqualified value for money conclusion.

We plan to issue the VFM commentary, incorporating the work carried out against the risks identified in our 2021/22 audit plan by the end of December 2023 as part of issuing the Auditor’s Annual Report.

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.

The Group Audit Instructions we released by the NAO in February 2023. These instructions confirmed that Sheffield City Council falls under the HMT Audit Threshold of £2bn. We will complete our return following the completion of the financial statements work. We cannot release our certificate to close the audit until it has been confirmed that the NAO do not wish to sample Sheffield City Council for additional procedures.

We have no other matters to report.

Independence

No independence issues have been identified.

Please refer to Section 9 for our update on Independence.

02 Areas of Audit Focus

Areas of Audit Focus

Fraud risk

Misstatements due to fraud or error

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) 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 respond to this fraud risk on every audit engagement.

We did not identify any specific fraud risks in our planning (aside form those associated with the risk of fraud in revenue and expenditure recognition presented separately). We continued to update our risk assessment throughout our audit. We have no additional specific fraud risks to report.

What judgements are we focused on?

We focused on judgements and estimates that could be influenced by management decisions and bias, which particularly impact on Property, Plant & Equipment, investment properties and pensions balances.

We focus on judgements made which impact the recording of transactions within the general ledger, particularly around journal entries.

What did we do?

- At the planning stage we identified the areas of the statements that were more susceptible to fraud, and we remained alert throughout the course of the audit for where this assessment may have changed. We did not identify any previously unidentified areas of risk. We inquired of management about where risks of fraud could exist and the controls that have been put in place to address those risks; considering the effectiveness of controls designed to address the risks. We also understood the oversight given by those charged with governance of management's processes in this area.
- We performed risk based sample testing of journals and other adjustments made in preparing the financial statements that met specific risk criteria in order to understand their purpose and appropriateness. No issues have been identified.
- We considered the existence of significant unusual transactions during the year. No issues have been identified.
- We tested significant accounting estimates for evidence of management bias. The most significant estimates relate to the valuation of Property, Plant and Equipment, investment property and 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 risks separately within this report. We evaluated the remainder of the Council's estimates including those related to NNDR, accruals, bad debt provision, depreciation and PFIs, as a low risk estimates.

What are our conclusions?

- We have not identified any material weaknesses in controls or evidence of management override.
- We have not identified any instances of inappropriate judgements being applied.

Our testing of journals found the items in our risk based sample to be appropriately supported and entered into the general ledger.

Our testing of judgements and estimates did not identify inappropriate judgements or bias in estimates. However, we have identified one uncorrected misstatement of £1.8 million where the NDR provision for bad debt is understated. This has been included in section 4 of this report.

We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.

Fraud risk

Risk of fraud in revenue recognition

Overstatement of income – dwelling rents, fees & charges, other income and grant income (including Covid-19)

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What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. We consider the risk to be relevant to those significant revenue streams other than taxation receipts and non-specific grants, where management is able to apply more judgement. Specifically, our risk is focused on:

- The occurrence of other income (including fees and charges, dwelling rentals, social care income and other income), where management may have overstated income in the current financial year.
- The occurrence of the grant income drawn down in year, including Covid-19 grants. The Council receives numerous grants that are credited to services within which lies judgement on whether conditions have been met in order to recognise this income. Further to this, we will also focus on Covid-19 grant income, which has been drawn down from grants received in the previous financial year. These Covid-19 grants are relatively new and with this comes uncertainty as to when they can be recognised. This overstatement of grant income will be focused on grants and contributions excluding taxation & non-specific grants, but including Covid-19 support grant income.

What judgements are we focused on?

We focused on judgements made which impact the recording of transactions within the general ledger, particularly around journal entries that increase the amount of revenue recorded in the financial statements at or around the year end.

What did we do?

- Understood and challenged management on any accounting estimates or judgements on income recognition for evidence of bias;
- Performed overall analytical review procedures to identify any unusual movements or trends for further investigation;
- 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 statements, specifically those that manually moved income from the subsequent year into the current financial year;
- Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing;
- Performed a month by month trend analysis on rentals from dwellings income and performed a reconciliation between the dwelling rental income recognised and the rental system; and
- Sample tested the revenue and capital grants received by the Council to ensure the accounting treatment and recognition applied to grant income is appropriate and in line with any associated conditions.

What are our conclusions?

We identified four errors totalling £5.3 million which have been included in the schedule in Section 4 of this report. These had no net impact on the overall reported position as they related to the incorrect grossing up of the balances within the Comprehensive Income and Expenditure Statement (CIES). There is no indication that these errors were as a result of fraud or deliberate misreporting.

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

Areas of Audit Focus

Fraud risk

Risk of fraud in expenditure recognition:

- **Inappropriate capitalisation of expenditure**
- **Understatement of other operating 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.

We consider that this risk is more prevalent in the following areas;

- Over the medium term we consider this is likely to occur through the capitalisation of expenditure that should be accounted for in the CIES given the extent of the Council's capital programme; and
- Understatement of expenditure to manage the financial position year on year.

We consider this to impact on the valuation of PPE balances as well as on the completeness of expenditure/creditor balances. We consider the risk of understatement of other operating expenditure to be relevant to those significant other expenditure items, where more judgement is likely to be applied. Specifically, our risk is focused on Premises Expenditure, Transport Expenditure, Supplies and services, Third party payments, Transfer payments, Support services.

What judgements are we focused on?

We focused on judgements made which impact the recording of transactions within the general ledger, particularly around journal entries that decrease the amount of expenditure recorded in the financial statements at or around the year end, transactions being included in the wrong financial year, or balances that are being inappropriately capitalised.

What did we do?

- Understood and challenged management on any accounting estimates on expenditure recognition for evidence of bias;
- 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 reduce expenditure by moving to the PPE balance sheet general ledger codes leading up to the balance sheet date;
- 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;
- Performed overall analytical review procedures to identify any unusual movements or trends for further investigation, including comparing year-on-year balances within accruals;
- Undertook a monthly trend analysis using our data analytics tools to identify any unusual movements in balances for further analysis and testing; and
- Performed unrecorded liabilities and payables cut off testing to identify payments occurring after the year end, which will address the completeness of the expenditure and creditor balances.

What are our conclusions?

We identified four errors totalling £5.3 million which have been included in the schedule in Section 4 of this report. These had no net impact on the overall reported position as they related to the incorrect grossing up of the balances within the Comprehensive Income and Expenditure Statement (CIES).

We also identified errors during our unrecorded liabilities testing of £2.9 million, resulting in an understatement of expenditure. Further details on errors can be found in section 4.

There is no indication that these errors were as a result of fraud or deliberate misreporting.

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

Significant risk

Property, Plant and Equipment – Valuation of Infrastructure Assets

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What is the risk?

Infrastructure assets are valued at historic cost, most specifically the cost incurred when replacing old or constructing new infrastructure assets. Due to these assets being difficult to componentise and there often not being a clear linkage between spend and an identifiable asset, Councils often capitalise schemes of expenditure and depreciate over an estimated economic life. Assets are removed from the financial statements ("derecognised") when depreciated to nil, with there rarely being an exercise performed to derecognise the actual asset being replaced. It is possible that asset lives can therefore significantly vary from their estimated life. The main 'technical issue' relates to subsequent expenditure on highways infrastructure assets and specifically on whether local authorities should be assessing if there is any residual value remaining in replaced components that needs to be de-recognised when the subsequent expenditure is added and whether assets are identifiable.

While this is standard practice for many fixed assets, it may not generally be being implemented for (highways) infrastructure assets because there are a variety of significant practical difficulties in applying the standard approach to such assets. This is, particularly in relation to roads, where the engineering records used to maintain, replace and add to the assets have not been created to map against identifiable components. It was recognised previously that it was not possible to typically identify components as the network was one asset and information on previous historical repairs is not available in a meaningful or identifiable way particularly for roads.

Our initial risk assessment identified a risk that if we were unable to obtain sufficient, appropriate audit evidence to gain assurance over the valuation and existence of these assets that the scope of our audit may be limited, impacting the opinion we provide on the financial statements.

At the time of issuing our planning report the CIPFA Board were considering whether full application of IAS 16 requirements is appropriate for (highways) infrastructure assets or whether it should be adapted to take account of the practical issues identified. CIPFA continued to consult in this area and on 25 December 2022, the Department for Levelling Up, Housing and Communities (DLUHC), issued a statutory instrument ("the SI") to cover all audits starting on or before 1 April 2024. This gave the option for authorities to apply the SI or continue to apply the code. Management continue to perform significant work in this area to meet the requirements of the amendment to the CIPFA Code which has been supplemented by the Local Authority Accounting Panel (LAAP) Bulletin 12. This was released on 11 January 2023.

What did we do?

- Performed a walkthrough to understand and evaluate the key processes in place to account for infrastructure assets, including; capturing accurate information, componentisation, monitoring of, and the treatment in relation to, subsequent expenditure, impairment and disposal or de-recognition;
- Assessed the extent of information deficit that exists to create materially accurate disclosures;
- Tested the valuation and existence of the highways infrastructure assets;
- Considered subsequent guidance issued by CIPFA impacting on the accounting for and disclosure infrastructure assets in the financial statements;
- Tested management's assessment of the CIPFA guidance, confirming the correct accounting and disclosure of balances in the financial statements; and
- Tested management's assessment of Useful Economic Lives (UELs) for reasonableness.

What are our conclusions?

Our conclusions are set out overleaf.

Significant risk

Property, Plant and Equipment – Valuation of Infrastructure Assets

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What are our conclusions?

The draft financial statements included an infrastructure balance of £774 million (net book value (NBV)), comprising of £1,162 million of cost and £388 million of depreciation. Therefore, the figures are material to the financial statements.

Management completed a significant amount of work prior to the CIPFA bulletin being released. Management have scrutinised their own records for all other assets classified as highways infrastructure to understand the records that support the balances and have acknowledged a portion where the underlying asset cannot be readily identified or the Council cannot state with sufficient certainty that the asset has not subsequently been replaced.

Management have identified three distinct groupings for which infrastructure assets have been classified:

1. Assets which have been purchased or procured/assembled under the PFI contract or via other routes directly by the Council. The assets (NBV: £519 million) are listed, at a granular level on a sub-Asset Register solely for Highways Infrastructure assets, splitting out streetlighting, footways and carriageways. We have audited this balance and obtained sufficient assurance over key items and on a representative sample of the assets making up this balance. Although there is significant information available for management to collate a detailed Highways Infrastructure Fixed Asset Register the Council needs to identify balances for the appropriate sub-categories of Highways Infrastructure Asset. Due to the commercial sensitivities involved with the PFI Contract, the Council is not yet able to apportion the cost of amounts capitalised to each of those categories.
2. Assets with a NBV of £138 million where the Council has reasonable assurance that the Assets have since been replaced, most notably by the PFI contract works. The Council, on the basis of their conclusions, have written off these assets in line with the provisions of Statutory Instrument.
3. Historical information deficits and custom and practice mean that information required to evidence the derecognition of replaced components of infrastructure assets will not practicably be able to be produced. Assets held on the Fixed Asset Register at a NBV of £115 million fall into this categorisation. Management will continue to investigate old records to establish if they can be placed in either group 1 or 2 at a later date. These balances, in line with the Statutory Instrument, will be carried forward at Net Book Value.

Management have recently provided a new disclosure note and briefing paper following. We have been working closely with management throughout to provide challenge to this process and consulted informally internally to ensure we are in the best position for when the disclosure note is ready to audit.

We have made a recommendation regarding controls in this area relating to how management monitor spend going forward to keep updated records in respect of when assets are being replaced to provide purposeful data for both asset lives and book values. These are formally included in Section 07. This includes working with the PFI contractor to establish the appropriate depreciation rate to charge for each sub-classification of assets. Currently, the Council depreciate all assets obtained under the contract over 40 years, which is line with the PFI contractual provisions, however this will require further consideration in light of guidance issued by CIPFA. For 2021/22 we have concluded there is no material issue.

We also identified some assets held where it has been difficult to substantiate their existence in line with the original provisions of the Code and thus require the implementation of the Statutory Instrument. We have made a recommendation for management to assess how such assets may be classified when the temporary provisions end. Our testing identified £4.7 million written off that management could not support – this is included as an unadjusted misstatement in section 04.

Significant risk

Property, Plant and Equipment – Valuation of Fair Value Assets

What is the risk?

Property, Plant and Equipment (PPE) 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. valuations are carried out by the Council's own specialist valuer or an external valuer is engaged for specific types and classes of assets. Valuers must follow the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. This process incorporates significant judgements. As the Council's asset base is significant, and the outputs from the valuer are subject to estimation, there is a risk that these 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.

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);
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also consider 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 2021/22 to confirm that the remaining asset base is not materially misstated and whether asset have been assessed for impairment and are materially correct;
- 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 valuer, consider assumptions underpinning the valuation and to provide expected valuations for a sample of assets valued during the year;
- Tested accounting entries have been correctly processed in the financial statements;
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied; and
- 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 will consider if this indicates any material variances to the asset valuations performed by the valuers and to those assets not revalued.

What are our conclusions?

Due to the level of risk attached to this area, we engaged our internal EY Real Estates (EYRE) valuation specialists to perform parts of our testing.

In 2021/22 our sample of PPE Valuations testing included 15 items that were valued on either an income or market approach to obtain Fair Value. 5 of these were reviewed by EYRE. Our testing has identified a number of issues.

Our work has identified a judgemental overstatement relating to the valuation of car parks totalling £5.66m which is included in our unadjusted errors in Section 4. The issue relates to the yield (6.25%) used by the Council's valuations team being too strong for a valuation predicated on trading profit. We would expect a yield in the region of 11% to 12% for Council run/managed car parks.

We have concluded that one property, that has been valued based on a conditional offer price, is overstated by between 10% and 20% as appropriate deductions have not been made to reflect the uncertainty associated with the offer.

We have stated that the valuation approach for council owned nursery buildings is unconventional and should be revisited to be in line with more traditional methodology.

We have also noted other input errors totalling £585k. Recommendations have been made in Section 7 of this report in relation to this.

Other areas of audit focus

Property, plant and equipment - Valuation of EUV, EUV-SH and DRC assets

What is the risk?

Given their more formulaic nature and less reliance on market value, we do not consider there to be a significant risk associated with the valuation of PPE assets where the valuation methodology is Depreciated Replacement Cost (DRC), Existing Use Valuations (EUV) and Existing Use Valuation for Social Housing (EUV-SH). However, as there is still an element of judgment and estimation involved we do consider there to be a higher inherent risk.

The Council's asset base is significant, and the outputs from the valuer are subject to estimation, therefore there is a risk that 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 estimates.

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 asset valuations, utilising the support from EY valuation specialists where it is considered appropriate to do so, considering assumptions underpinning the valuation and to provide expected valuations of assets selected;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code. Also consider 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 2021/22 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;
- Tested accounting entries have been correctly processed in the financial statements; and
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied.

What are our conclusions?

Due to the level of risk attached to this area, we engaged our internal EY Real Estates (EYRE) valuation specialists to perform parts of our testing.

In 2021/22 our sample of PPE Valuations testing included 9 items that were valued on either an EUV or DRC basis. 6 of these were reviewed by EYRE.

Our work has identified a number of errors in the inputs that are used to create some of the valuations that we have assessed. These have led to adjustments being made by management to correct the valuations and include the incorrect build rates being used; incorrect site areas; and unsupportable obsolescence rates. We have included the total adjustments made by management in Section 04 and recommendations in Section 7.

We work closely with management to update the Council Dwellings valuation, to incorporate the most recent indexation, as close to our signing date as possible. This exercise has led to a £20m adjustment being made to the draft figures but ensures that the amended balance is as accurate as possible.

Other areas of audit focus

Investment Property valuation

What is the risk?

Investment property assets are valued at fair value. Whilst there is a greater estimation risk associated with these assets, and more judgement exercised by property valuers, the Council's portfolio comprises of two assets, which in total are less than our planning materiality, but are still significant at a value of £18.8 million. As there is still an element of judgment and estimation involved we consider there to be a higher inherent risk associated with their valuation.

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;
- Tested asset valuations, utilising the support from EY valuation specialists, considering assumptions underpinning the valuation and to provide expected valuations of assets selected; and
- Reviewed the classification of assets and ensure the correct valuation methodology has been applied.

What are our conclusions?

We engaged our internal specialists to review the valuation of one of the two main portfolios of investment properties.

They have been able to gain assurance on the methods used in valuing the asset and we have nothing to report in relation to the valuation.

Other areas of audit focus

Net Pension Liability Valuation

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 (LGPS) administered by South Yorkshire Pension Authority. The Council's pension fund accounting deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. In the draft statements at 31 March 2021 this totalled £1,040 million (£941m at 31 March 2020). The information disclosed is based on the IAS 19 report issued to the Council by the actuary.

The accounting entries relating to the LGPS are underpinned by significant assumptions and estimates. There is therefore an increased risk of misstatement and error. The estimation of the defined benefit obligations is sensitive to a range of assumptions such as rates of pay and pension inflation, mortality and discount rates. The pension fund valuations separately involve external specialists, to provide these actuarial assumptions. The estimation of the defined benefit assets involves estimation on the expected asset returns for the year based on the movement in the underlying Pension Authority total assets. A small movement in these assumptions could have a material impact on the value in the balance sheet.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and assumptions underlying these estimates.

What did we do?

We have:

- Liaised with the auditors of South Yorkshire Pension Authority, to obtain assurances over the information supplied to the actuary in relation to the Council and their work over the valuation of the pension fund's assets;
- Assessed the work of the Pension Fund actuary (Hyman Robertson) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered any relevant reviews by the EY actuarial team;
- Considered the reasonableness of the actuary's estimate of the asset returns applied in rolling forward the asset position from the prior year; and
- Reviewed and tested accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

Our work on the liabilities recognised, and the assumptions underpinning them, have raised no significant issues.

The pension fund auditor has alerted us to an unadjusted error in relation to the valuation of the pension scheme assets within the financial statements of the South Yorkshire Pension Authority. If processed this would lead to a reduction in the Council's defined benefit liability of £8 million, representing the SCC share of the fund. We have included this in Section 04.

The pension fund auditor alerted us to a £4 million difference between the benefits paid value per the IAS19 report for Sheffield City Council and that per underlying records. This difference impacts both the of the Council's share of Assets and Liabilities equally and therefore there is no net effect on the balances disclosed in the Council's financial statements. There is, however, a disclosure difference in the gross figures disclosed for both the disclosed asset and liability figures. This remains unadjusted by management and has been included in Section 4.

We have set out in the executive summary some of the further challenges we have faced in this area following the release of the 2022 Triennial valuation, however, no issues have been identified in the subsequent work that has been performed. At the time of writing this report, we are still awaiting the final, updated, report on the testing of membership data to be provided by the pension fund auditor. Adjustments arising as a result of the Triennial Valuation total £46.6 million and are listed in Section 04.

Other areas of audit focus

PFI and Service Concession arrangements

What is the risk?

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.

For 2021/22 there is a change to one of the schemes, involving a re-finance gain. In light of this, the Council is in receipt of a sum of money, some of which will be owed back to Central Government who have partially funded this scheme.

What did we do?

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- We have reviewed (with the support of EY specialists) the accounting judgements and models to ensure that we are comfortable with the judgements and related accounting treatment in the financial statements, including consultation regarding the changes in year;
- For each of the material schemes we undertook testing of in-year inputs to the accounting models and agreed 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 identified an error in the draft financial statements in relation to how the deferred revenue element had been disclosed; management have adjusted for this and as the amendment is below our tolerable threshold we have not individually identified this in Section 4.

Following the adjustment made by management, we have concluded that balances in relation to PFI are stated free from material misstatement.

03 Audit Report

Draft audit report

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

Opinion

We have audited the financial statements of Sheffield City Council ('the Council') for the year ended 31 March 2022 under the Local Audit and Accountability Act 2014 (as amended). The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure 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 and 2.

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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

In our opinion the financial statements:

- give a true and fair view of the financial position of Sheffield City Council as at 31 March 2022 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022).

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

In auditing the financial statements, we have concluded that the Director of Finance and Commercial Services' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Council's ability to continue as a going concern for a period to 31 March 2025.

Our responsibilities and the responsibilities of the Director of Finance and Commercial Services with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Council's ability to continue as a going concern.

Other information

The other information comprises the information included in the Statement of Accounts set out on pages 3 to 28 and 169 to 174, other than the financial statements and our auditor's report thereon. The Director of Finance and Commercial Services is responsible for the other information contained within the

Draft audit report

Our opinion on the financial statements

the Statement of Accounts.

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.

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 course of 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 themselves. 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.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 (as amended);
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014 (as amended);
- 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 (as amended);
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 (as amended);
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014 (as amended);
- we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2022.

We have nothing to report in these respects.

Responsibility of the Director of Finance and Commercial Services

As explained more fully in the Statement of the Director of Finance and Commercial Services' Responsibilities set out on page 26 , the Director of Finance and Commercial Services 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 2021/22 as amended by the Update to the Code and Specifications for Future Codes for Infrastructure Assets (November 2022), and for being satisfied that they give a true and fair view and for such internal control as the Director of Finance and Commercial Services determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Director of Finance and Commercial Services is responsible for assessing the Council'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 Council either intends to cease operations, or has 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.

Draft audit report

Our opinion on the financial statements

Auditors 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.

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Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:
  - Local Government Act 1972,
  - Local Government and Housing Act 1989 (England and Wales),
  - Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
  - Education Act 2002 and school Standards and Framework Act 1998 (England),
  - Local Government Act 2003,
  - The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
  - National Health Service Act 2006,
  - The Local Audit and Accountability Act 2014, and
  - Planning Act 2008 and the Community Infrastructure Levy Regulations 2010 (SI 2010/948),
  - The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment Legislation, tax Legislation, general power of competence, procurement and health & safety.

We understood how Sheffield City Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, the head of internal audit, those charged with governance and the Monitoring Officer and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the Council's committee minutes, through enquiry of employees to confirm Council policies, and through the inspection of employee handbooks and other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the Council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified manipulation of

Draft audit report

Our opinion on the financial statements

reported financial performance (through improper recognition of revenue and expenditure), inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks to be our fraud risks.

To address our fraud risk around the manipulation of reported financial performance through improper recognition of revenue, we obtained the Council's manual year end income accruals, challenging assumptions and corroborating the income to appropriate evidence.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the Council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, we tested specific journal entries identified by applying risk criteria to the entire population of journals. For each journal selected, we tested specific transactions back to source documentation to confirm that the journals were authorised and accounted for appropriately. We also performed a review for any significant, unusual business transactions and assessed areas of estimation for evidence of management bias.

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 2020, having regard to the guidance on the specified reporting criteria issued by the Comptroller and Auditor General in December 2021, as to whether Sheffield City Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2022.

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 (as amended) to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Council's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or on our work on value for money arrangements.

In addition, we cannot formally conclude the audit and issue an audit certificate until we have issued our Auditor's Annual Report for the year ended 31 March 2022. We have completed our work on the value for money arrangements and

Draft audit report

Our opinion on the financial statements

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will report the outcome of our work in our commentary on those arrangements within the Auditor's Annual Report.

Until we have completed these procedures, we are unable to certify that we have completed the audit of the accounts in accordance with the requirements of the Local Audit and Accountability Act 2014 (as amended) 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 (as amended) 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 the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Hayley Clark (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Birmingham
October 2023

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 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 uncertain facts or circumstances, open to interpretation.

Summary of adjusted differences

We identified that collection fund debtors from taxpayers includes a £3.9m balance of prepaid council tax. This represents deferred income for the Council and should therefore be shown within creditors gross, rather than netted of as is currently the case. Management have amended both the debtors and creditors balance in recognition of this. The PY amount is also disclosed gross and the amount of £3.8m is not material and as such does not qualify for restatement as a prior period adjustment under IAS8, therefore no corrective action has been taken by management in relation to the misstatement in the opening balance.

We identified 8 related parties, with whom the council has entered into transactions, that had not been disclosed.

Balances arising from a re-financing gain on a PFI contract were not split between short and long term elements resulting in a £7m disclosure amendment.

We identified creditors relating to central government bodies that were included in the disclosure for “other creditors” the adjustment for this error was £8.3m.

Amendments arising from our work on PPE Valuations resulted in a £7.13m increase and £1.71m decrease in the Net Book Values of the associated assets. In the course of the audit, management notified us of £4.45m of adjustments to the valuation of assets they identified as requiring adjustment.

Management, as part of a pre-agreed process with us, amended Council Dwelling valuations by £20m to recognise movements in the Housing Price Index between the balance sheet date and February 2023.

Adjustments in relation to the release of the 2022 LGPS Triennial Revaluation have decreased the Net Pensions Liability and increased the Re-measurements of the pension net defined benefit liability by £46.6m

Our work scrutinising the disclosure of termination benefits, identified undisclosed exit packages from one business area that had not been included due to a misunderstanding of the requirements of the note. We have raised a recommendation in relation to this omission.

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 the uncorrected misstatements below and also in the table on the next page be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Standards Committee and provided within the Letter of Representation:

Disclosure Misstatements:

We identified that the total rateable value stated in the Collection Fund disclosure note does not agree to the Valuation Office Agency (VOA) listing by £4.1m.

As reported by the pension fund auditor, there is a difference between the financial statements (projected) benefits payable of and the value per underlying records of £4,104,679. This has no net impact on the Pensions Liability, but does mean that the gross Pensions figures for assets and liabilities are understated.

Audit Differences

Uncorrected misstatements 31 March 2023 (£'000)	Effect on the current period: OCI Dr/(Cr)	Effect on the current period: CIES Dr/(Cr)	Net assets (Decrease)/Increase: Assets current Dr/(Cr)	Net assets (Decrease)/Increase: Assets non-current Dr/(Cr)	Net assets (Decrease)/Increase: Liabilities current Dr/(Cr)	Net assets (Decrease)/Increase: Liabilities non-current Dr/(Cr)
Errors						
Known differences:						
► Cut-off errors identified where the Council account for 12 monthly payments in one year (as also reported in the previous year)		2,975			(2,975)	
► NDR provision for bad debt has been understated due to the omission of properties from the Councils system (split SCC:Fire/DLUHC)		1,849	(906)		(943)	
► Infrastructure Assets written off as "known" that could not be supported	(4,751)			4,751		
Judgemental differences:						
► Unadjusted difference report by the pension fund auditor in relation to valuation of alternative pooled investment vehicles (SCC Share)	(8,146)					8,146
► Unadjusted difference report by the pension fund auditor in relation to the value of assets reported to the actuary and those tested by the pension fund auditor (SCC Share)	(2,357)					2,357
► Estimated increase in Pension Fund Assets based on the actual return on plan assets compared to that reported in the actuary	(1,937)					1,937
► Differences arising from the work of our Real Estate specialists	4,034			(4,034)		
Projected differences:						
► Removal of significantly old items within the report for Good Received Not Invoiced (GRNI) deemed unlikely to be billed.		(3,403)			3,403	
Balance sheet totals			(906)	717	(516)	12,440
Income effect of uncorrected misstatements before turnaround effect	(13,157)	1,422				
Turnaround effect. See Note 1 below.	8,277	(2,762)				
Cumulative effect of uncorrected misstatements, after turnaround effect	(4,880)	(1,340)				
Uncorrected reclassification misstatements						
► Income and Expenditure double counted		5,255 (5,255)				
► Lodgements at the year end not matched against debtors to increase cash			6,821 (6,821)			

Note 1: turnaround effect is the impact of uncorrected misstatements identified in the prior period, on results of the current period. This includes the impact on the Prior Year of the error identified above in relation to the provision for doubtful NDR debtors (£1.1m) which has been discovered in the current year audit.

05 Value for Money Risks

Value for money

The Authority's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the Cipfa code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

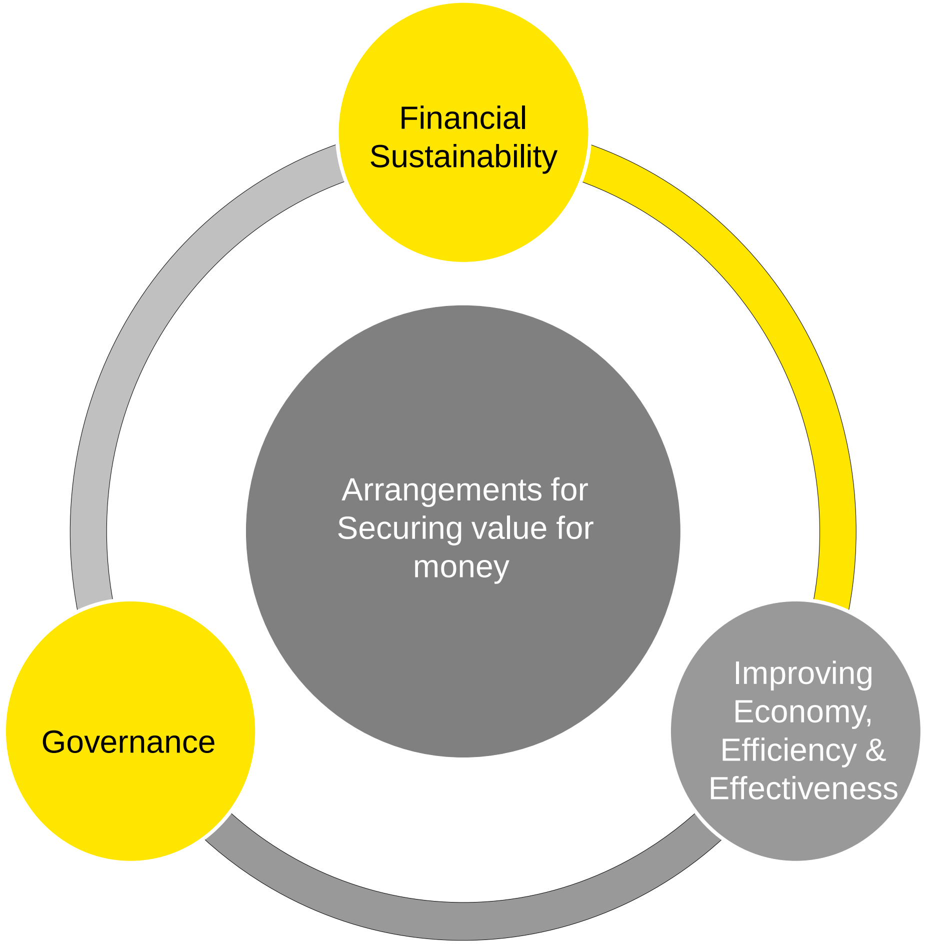
Risk assessment

We identified three significant risks related to the Council's arrangements. The tables below present our findings in response to the risks in our Audit Planning Report.

Status of our VFM work

We have now completed our VFM risk assessment and related work over the identified significant risks and we have not identified any significant weaknesses to report to you. Subject to review and concluding our work, we anticipate we will have no matters to report by exception.

Under the Code of Audit Practice 2020 we are required to issue our commentary on the Council's VFM arrangements in the Auditor's Annual Report (AAR). The AAR is issued on the conclusion of the audit and we anticipate doing so by the end of April 2023.



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.

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What is the significant value for money risk?	What arrangements did the risk effect?	What are our findings?
<u>Financial Sustainability</u> The financial environment in which the Council operates continues to be challenging with continued reductions in funding and increasing demand for services. 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 adult social care and children's services driven by historic overspends and difficulties in achieving recurrent savings. In addition to this, the Council is experiencing a significant demand for financial support to maintain leisure services within the city. 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 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.	Financial sustainability	Our work considered: ‣ current financial standing and the availability of reserves to fund future expenditure. ‣ the 2021/22 outturn performance and impact on the current MTFS. ‣ the appropriateness of key assumptions used by the Council in setting the budget and Medium Term Financial Strategy. There was adequate evidence that the Council had adhered to governance processes for setting a balanced budget and MTFA in the 2021/22 budget. Reasonable assumptions were made in preparing the budget although subsequent monitoring mechanisms undertaken brought to light the overspend and enabled the Council to take a proactive approach to deviations from the approved budget. The impact and changes caused by coronavirus are still prevalent for 2021/22; specifically related to changes in social care. There was a budgeted savings for this portfolio but demand of in-home care services resulted in a overspend by end of the financial year. This was slightly mitigated by a one off grant received in the year. As a result, financial sustainability in 2021/22 was not significantly impacted. However, at the time of reporting, there were uncertainties concerning government funding which may impact on the VfM Conclusion for 2022/23 as the Council envisages to spend a considerable amount on social care. The Council continued to explore alternative funding needs including considering joint partnerships that will allow cost cutting measures. If the current trend of spend continuous for social care without alternative income sources to augment budgets in future, this may put a strain on financial sustainability as a greater percentage of reserves have already been earmarked, leaving limited reserves for the Council to draw on. Whilst there is no impact on the 2021/22 VfM conclusion, the area needs to be continuously reviewed as it may have an impact in future.

Value for Money Risks

What is the significant VfM risk?	What arrangements did the risk effect?	What are our findings?
<u>Regeneration Programmes</u> 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 and the ongoing Heart of the City redevelopment. 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.	Governance	Our work focused on: ▸ Reviewing the decision making process for the approval of investment in West Bar. ▸ Reviewing whether the risks associated with regeneration schemes are appropriately being reflected on the risk register and mitigating actions are being taken. The Council has dedicated resources to monitor the projects and assess their performance. A City Centre Development Board is in place to as a governance tool to ensure Council objectives are being adhered to. The Co-operative Executive is also appraised on a quarterly basis on progress made including challenges encountered. The Co-operative Executive provides support through ratifying re-strategies necessary to ensure that the projects remain on track. The VfM conclusion is not impacted for FY21/22, however, in light of the cost of living crisis as well as inflation, coupled with an imminent recession period, uptake of new rental space may be low in the near future and therefore, the two projects' financial models need to be assessed for viability more rigorously to ensure that the Council's financial yield is realised
<u>Reconfiguration of leisure facilities</u> As of August 2024 the City's leisure facilities (Major Sporting Facilities) that have been managed by the Sheffield City Trust since 1988, return to the stewardship of the Council. The Council will inherit aging assets that are in need of repair and by modern standards are less attractive than equivalent facilities in other major cities. They will also increase the operating expenditure of the Council, with increases in the cost of heating and electricity expected in the short-term.	Governance	Our work focused on: ▸ Reviewing the decision making process for the future of the Major Sporting Facilities. ▸ Reviewing whether the associated risks with are being appropriately reflected on the risk register and mitigating actions are being taken. The Council adhered to the existing governance processes in place in deciding on how to manage the leisure centre assets in preparation for the reconfiguration in August 2024. External experts were engaged to advise the Council and alternative options were considered before a decision was made to engage with a third party to operate the leisure facilities. Other matters were also considered in reaching this decision namely the impact on legal, climate and diversity. However, as the selection process is yet to commence, this risk needs to be assessed on a continuous basis until the matter has come to fruition in August 2024 or a contract is signed with a management company (whichever happens sooner). Therefore, there is no impact on the VfM conclusion for FY 21/22.

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 for the year ended 31 March 2022 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 narrative report of the Statement of Accounts for the year ended 31 March 2022 and published with the financial statements is 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.

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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 (WGA) submission as Group Audit Instructions. The Group Audit Instructions were released by the NAO in February 2023. These instructions confirmed that Sheffield City Council falls under the HMT Audit Threshold of £2bn. We will complete our return following the completion of the financial statements work. We cannot release our certificate to close the audit until it has been confirmed that the NAO do not wish to sample Sheffield City Council for additional procedures.

Other reporting issues

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

Other matters

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

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

There are no matters to report to you in respect of the above areas other than as included in the body of the report.

07 Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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

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

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

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The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2020/21 audit (including IT controls). At the completion of the audit we will issue our Annual Auditors Report containing all of the identified points.

	High	Moderate	Low	Total
Number of open observations at the start of the audit	-	11	4	15
Observations noted in 2021/22	2	8	6	16
Issues closed or merged in year	-	10	2	12
Number of open observations at the conclusion of the audit	2	9	8	19

** our prior year (2019/20) findings were reported subsequent the end of the 2020/21 financial year, therefore management had no realistic timescale to take action on the recommendations in time for us to report in 2020/21.

We will perform a review of progress against all of these and the current year findings in our Audit Planning Report for the 2021/22 audit.

Key:

- (Green) A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6-12 months.
- (Yellow) 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.
- (Red) 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.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you.

Assessment of Control Environment

Area	PPE Valuations – Inputs	Rating	Red
Observation	The work of our valuation specialists identified a number of errors in the inputs of valuations made in the year. These included: ➢ yields on car parks being significantly too high for the asset type being valued; ➢ Spreadsheet formulae being incorrect; ➢ "surplus" nursery valuations being based on variables that are irrelevant to the valuation of the building; ➢ Valuations for schools not being updated to reflect capital works since the previous valuation; ➢ Incorrect BCIS build rates being used; and ➢ Incorrect site areas in calculations. Attention should be given to review the inputs being used in the valuation process.		
Management comment	The asset portfolio is significant in size, both in terms of value and volume, and is largely made up of professional valuations which are subject to various judgements, estimation uncertainty, and information often not available at the time of the accounts preparation. We will work closely with our experts in Property Services to appraise what factors are appropriate in making reasonable judgements and review valuation approval processes to check for formula errors. The audit fieldwork has been challenging in this area where the EY Real Estates team didn't begin its enquiries of our Property colleagues until late December. Each year this then impacts on the valuation timetable of work for the coming year.		

Area	Related Parties	Rating	Red
Observation	As set out in Section 4, our work comparing the various interests held by members to the disclosure made by management in the financial statements identified eight related parties that had not been included. Two of these related to where the member had not made the adequate disclosure and six where the disclosure had been made however management did not capture this in their processes to create the required disclosures. Management should investigate how declared interests were omitted from their disclosures and act accordingly whilst reminding members to provide full declarations of interest and updating when circumstances change.		
Management comment	We will liaise with Legal and Democratic Services and Members to see where declaration processes can be improved and how checks can be put in place to provide assurance. The Accounting team will review processes, particularly the timing of data capture, to ensure all declarations are included in the disclosures.		

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Assessment of Control Environment

Area	Bank Reconciliation	Rating	
Observation	We identified significantly higher bank lodgements at the year-end than the Council would expect, including some a year old. A number of these items should have been matched and the income reflected in the financial statements. Although we understand the reasons that these were not matched, this presents a risk that the financial position is misstated. Management have presented an updated position in October 2022 which shows the majority of items have since been cleared.		
Management comment	It is the responsibility of budget holders to ensure that transactions are entered in the general ledger to match entries paid/received to the bank account. The Treasury team engages with and actively assists services to meet this requirement. A new team member in Treasury has significantly improved the processes and response times this year, where their skills and knowledge of various services has seen an overall improved output in this area. To improve further, more user friendly and timely information is now being published and distributed to budget holders, along with detailed guidance and regular communication / alerts to promote and support the process. A new policy is also being developed to enable Treasury to act if items are unmatched beyond an agreed period.		

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Area	PPE Valuations – Useful economic lives	Rating	
Observation	The work of our valuation specialists has identified that management have utilised a blended UEL approach for Specialised Assets valued under the depreciated replacement cost method. This has led to obsolescence being overstated for a sampled asset and potentially for other older assets. Management should consider whether a more tailored UEL should be applied to different asset types.		
Management comment	Property Services experts have agreed to review their approach to Useful Economic Lives in DRC assets specialist assets.		

Assessment of Control Environment

Area	General Ledger Controls	Rating	
Observation	Upon inspection the GL transaction data for interim and year end was incomplete causing variances in the completeness analysis when comparing the TB movement to the GL transactions. This was driven by missing journals when the data was downloaded from the system before the GL had been closed. This has led to inefficiencies in the audit process to identify the cause of the issues which led to further delays in us being able to select some of our samples. Controls should be introduced to ensure checks are made on the inclusion of relevant codes.		
Management comment	We note the audit finding and acknowledge the early information request provided to EY's data analytics team was incomplete on the original transaction data download where the system was not yet closed. The error was identified, and a new system report provided to include late postings.		

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Area	Termination Benefits	Rating	
Observation	Due to lack of understanding of the requirements of the reporting framework, exit packages funded from the HRA had not been disclosed in the Financial Statements. This note is sensitive and thus any errors or omissions require amendment, management should ensure that those responsible for compiling disclosures within the financial statements are aware of the requirements.		
Management comment	Following staff changes and handover this year, new members of the team, preparing the information for the note, are being trained in the Code guidance.		

Assessment of Control Environment

Area	Provision of supporting documentation - payroll	Rating	
Observation	Management have struggled to obtain the supporting information for the staff included in the Officers' Remuneration disclosure. This applies to members of staff working for schools who have their payroll run by Capita as well as Schools who run their own payroll. We have also encountered issues in obtaining information from payroll providers to support our testing of Starters and Leavers. Management should work with schools to obtain the supporting documentation for the Officers Remuneration note as part of the closedown timetable, rather than wait for items to be selected in our sample. This will provide the team the opportunity to do their spot checks on the accuracy of the data and ensure that the support is readily available when requested. Management should identify how information can be provided from Capita in a more timely basis and investigate if there are or have been breaches of Service Level Agreements.		
Management comment	We will liaise with Capita and Schools to see where improvements can be made in the process of providing year end information and supporting documentation to assist the audit. We will engage with both Capita and Schools to clarify our annual accounting requirements and look to establish an improved process of providing audit evidence in a timely manner. We will ensure we work to data regulations, due to the sensitivity of such information.		

Area	Goods Received Not Invoiced	Rating	
Observation	In our testing of creditors we have identified old GRNI within the year-end balances, some of which date back as far as 2017. The likelihood of these items being invoiced diminishes over time, and although the GRNI report is generated by the system, services are expected to review the items relating to their area. These should be reviewed on an annual basis with any older than 12 months being justified for continued inclusion. This could potentially free up committed expenditure from budgets.		
Management comment	We welcome this audit recommendation to help us improve our internal processes. We have undertaken a detailed analysis of all receipts without an invoice, with a view to closing older orders once consultation with budget holders is complete. We're also establishing a new policy to build in regular monitoring, and intervention for orders open beyond an agreed period.		

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Assessment of Control Environment

Area	Internal transfers of income (recharges)	Rating	
Observation	As set out in Section 4 of this report, we have identified items of income in relation to schools, has been double-counted both in the records of the Council and on consolidation of the Schools' balances. This clearly leads to an artificial grossing-up of both the income and expenditure figures in the CIES. Management have not amended these balances as there is no net impact on the Surplus/Deficit on the Provision of Services. Management should ensure that processes are in place to manually review for double-counted income, in particular in relation to schools and perform, where applicable, manual adjustments to remove the additional entries from the financial statements		
Management comment	The Accounting and Schools teams have built in a joint manual review process into the year-end timetable to ensure income isn't reported in both schools and consolidated Council balances.		

Area	Disbursements to third parties.	Rating	
Observation	In our testing of other contributions, we identified a receipt of income (£1m) that was in relation to the repayment of short-term liquidity support provided to an NHS organisation. NHS organisations are prohibited from obtaining financing from external sources. We have investigated the circumstances of this payment; management within the Council and the third party have set out the details of the transaction and we have concluded that the transaction is lawful from the Council's perspective. However, the way the matter was transacted could have been clearer and better documented. Where unusual transactions are made, management should document the governance processes followed and consider whether there is any potential reputational risk to the Authority by making payments alongside the usual considerations made in relation to liquidity and income generation.		
Management comment	The Council provided short term assistance to our NHS Partners in the city who were operating in an emergency Command and Control role during Covid. We acknowledge that our internal processes can be improved, and steps have been taken to ensure the necessary governance is better documented.		

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Assessment of Control Environment

Area	Highways Infrastructure Assets	Rating	Green
Observation	As noted in Section 02, management should consider how they can identify a meaningful basis upon which the balance of Highways Infrastructure capitalised through the PFI contract can be apportioned to each of the categories of:- Streetlighting; Carriageways; and Footways		
Management comment	The Accounting team is working with Amey and our Contracts team to understand the new potential accounting requirements and how historic and future data, and balances, may need to be categorised and accounted for.		

Area	Highways Infrastructure Assets	Rating	Green
Observation	As noted in Section 02, currently, due to the age profile of the majority of the Council's Highways Infrastructure assets, there has not yet been significant replacement of the Assets acquired under the PFI Contract. As the contract matures, it will be necessary for the Council to introduce a mechanism for monitoring where assets are replaced and establish an accounting policy for how to ensure the Financial Statements and Fixed Asset Register remain materially correct.		
Management comment	Amey provides the Council with asset information to a good standard. The Accounting team is working with Amey and our Contracts team to see how this information, together with other contract monitoring mechanisms, can be utilised to account for asset replacement.		

Assessment of Control Environment

Area	Highways Infrastructure Assets	Rating	Green
Observation	Currently the Council depreciate all assets acquired under the Highways PFI contract over a period of 40 years, regardless whether the Asset is a footway, carriageway or streetlight. This is believed to be in line with the PFI contract providing for the assets to be maintained to this level of economic life. Further to our recommendation earlier in this report, once a basis has been established to apportion the costs capitalised under this contract, consideration should be given to CIPFA guidance that suggests that carriageways and footways would be subject to lower useful economic lives.		
Management comment	The Accounting team is working with Amey and our Contracts team to understand how the data held in the asset register can be utilised to report on asset lives for accounting purposes.		

Area	Leases – Council as Lessor	Rating	Green
Observation	Although the projected error was below our reporting threshold, we identified a lease where the Council hadn't billed for ground rent for over 5 years. Management should review other similar lease arrangements and cross-reference to billing records for any omissions.		
Management comment	We accept the audit finding and will liaise with Property Services to review billing and assurance processes. Preparing for the implementation of IFRS 16 is highlighting the importance of maintaining comprehensive leasing information.		

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Assessment of Control Environment

Area	Highways Infrastructure Assets	Rating	
Observation	For our testing of Infrastructure Assets held that have not been acquired under the core PFI contract, the council has an approved business case to support the underlying assets. For a portion of a sample of these assets, the Business Cases were not detailed sufficiently for us to be able to identify the specific asset and gain assurance over its existence. Due to the implementation of the Statutory Instrument we are comfortable that the balances remain stated fairly and in line with the appropriate financial framework. We recommend that the council note these exceptions and consider how they will seek to ensure that following the end of the temporary relief offered by the SI, assets contained within the Infrastructure FAR are supportable		
Management comment	The Accounting team is working with Amey, our Contracts team and our Capital & Construction team to understand the new potential accounting requirements and how historic and future assets contained within the Infrastructure fixed asset register are evidenced and supported.		

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Area	Schools Bank reconciliations	Rating	
Observation	Supporting evidence provided in respect of bank reconciliations for schools was in editable format and did not always demonstrate review had been appropriately performed. Management should ensure a process is introduced that formalises evidence of approval, in a timely nature, of, at a minimum, the year-end bank reconciliations performed at schools.		
Management comment	We will liaise with Schools and the Schools finance team to see where improvements can be made in the process of providing year end, as a minimum, bank reconciliations. We will engage with Schools to clarify our annual accounting requirements and look to establish an improved process of providing audit support that evidences the formal review and approval of school bank reconciliations.		

Assessment of Control Environment – follow-up on prior year recommendations

Area	Debtors	Rating	

Observation

We sampled an item in debtors existence of value 572k. On further inspection SCC had been debiting this account code with pay advances, but credited the receipts to a different code.

The two codes net off within the statement of accounts but in reality only £77k was actually outstanding. This approach leads to additional administrative burden to compare the two codes each year and also produces artificially high balances from which we identify our samples.

SCC have agreed to undertake a consolidation exercise to transfer the credits to the correct code, reducing the balance on each code.

Management comment

The audit identified that debit and credit balances for pay advances were being posted to separate codes, which then required regular reconciliation. To simplify our processes, we will work with Payroll to reconcile the related transactions and transfer the credits to the correct code.

2021/22 Update

Although management have informed us that work is still ongoing to identify and correct a number of integra 'payroll' related codes which contain imbalances, no such similar occurrences in our audit this year.

Closed.

Area	IFRS 16 preparedness	Rating	

Observation

The Authority does not yet have a robust system in place to ensure they capture trigger events which would require them to assess lease liabilities.

Based on discussions, we note that the Authority will not be in a position to implement a software solution or "system" by 1 April 2022 to account for leases which would automatically flag such changes as they occur, however, there will be reliance on the Property Services department to notify Finance of any such triggers that may be present. The Property Services department will be assisting the finance team in reviewing their leases each year. At current, this is the process the Council will follow in this regard.

Management comment

IFRS 16 covering lease accounting is a new requirement for 1 April 22 onwards (2022/23 accounts). We will work with Property Services to use our best endeavours to comply materially with its requirements. As electronic systems become available nationally, we will review whether they provide a more reliable and cost-effective approach than our current one, and implement if they do. Even with a system, there will continue to be a need to manually record lease amendments and so we are in the process of establishing procedures across teams to capture this.

2021/22 Update

Management have stated: Implementation of IFRS 16 has now been delayed until 1 April '24, meaning we will need to apply the standard for the first time in the 2024/25 accounts. Therefore, we have a further 2 years to prepare for implementation, which may include sourcing a software solution to assist with accounting for leases.

This finding remains open

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Assessment of Control Environment – follow-up on prior year recommendations

Area	Investment Properties	Rating	(yellow)
Observation	Discussions held between management and the EY internal specialists in relation to small format advertising space, it became clear that the Council retains the right to use up to £0.5m of space per annum, The valuation of the associated asset capitalised in recognition of the advertising space does not take into account the space available for Council use. We have concluded that the asset is not materially misstated, but have included a range by which the asset may be understated in Section 04 of this report. Management should ensure that the 2021/22 valuation for this advertising space includes all of the space that is retained by the Council as per the contractual arrangement.		
Management comment	As at the 31st March 2021, we remain confident that the valuation of the investment property is accurate. We will review the operational element in 2021/22 and look to provide a valuation as at 31st March 2022 as appropriate. We will seek early liaison with audit in advance of year end to obtain agreement on the valuation method to be used.		
2021/22 Update	Although we are awaiting the final report from our specialists, we can confirm that there have been no findings reported in relation to investment properties this year closed		

Area	Members Interests	Rating	(yellow)
Observation	Our work identified transactions with two previously undisclosed related parties. These related parties were not disclosed by members on their annual declarations. Management should introduce checks to be performed to ensure that members declarations are complete.		
Management comment	We will liaise with Legal and Democratic Services and Members to see where declaration processes can be improved and how checks can be put in place to provide assurance.		
2021/22 Update	Once again we have raised a finding in relation to Members interests. Merged with current year findings / Closed		

Assessment of Control Environment – follow-up on prior year recommendations

Area	Financial Statements Closedown Process – Quality Assurance
Rating	
Observation	In disclosure note 7 we noted adjustments with no impact on the primary financial statements that were significant in their value. Although we have not listed these in the schedule of corrected misstatements, as they are of a disclosure nature only, management should ensure that the process of compiling the financial statements includes controls to reduce the likelihood of material misstatements of a disclosure nature also.
Management comment	A small number of disclosure errors in notes to the accounts were picked up by our review processes, some of which were found soon after publishing the draft accounts. These were raised with our external auditors and corrected. The timetable for closing the accounts and publication can be challenging, so we welcome this recommendation to highlight the importance of protecting the review and proof-reading elements of the accounts closure timetable.
2021/22 Update	In an authority of this size with multiple directorates feeding in information for consolidation, the absolute elimination of errors is not feasible, particularly with a small core finance team. We note that the financial statements presented for audit in 2021/22 contain fewer errors and have benefitted from additional senior review time built in to the timetable. However, the core finance team remains stretched and our report does contain a higher number of reporting issues and errors than we would expect; management should continue to seek improvements in the closedown process. Remains open

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Area	Leases
Rating	
Observation	In our substantive testing of leasing arrangements the council was unable to provide us with the original copy of one lease with a commencement date in 1934, assumed lost. Clearly this cannot be rectified, but it should be emphasised that leasing document should be retained for all new leases.
Management comment	We accept the audit finding that the evidence required by audit was not available for one historic lease sampled. The implementation of IFRS 16 is highlighting the importance of maintaining comprehensive leasing information and we are working with Property Services to improve the completeness of our documentation.
2021/22 Update	Due to the nature of the findings being unable to be improved, we now close this but note that there is another recommendation relating to leases being carried forward.

Assessment of Control Environment – follow-up on prior year recommendations

Due to the timing of the finalisation of the 19/20 audit, management did not have sufficient time to implement our findings before closing down 2020/21, therefore we also include an update against those recommendations here.

Area	PPE Valuations
Rating	(yellow)
2019/20 Observation	We noted a number of issues with the valuation of PPE Assets, recommending that consideration should be given to a more thorough review of the balances being included in the financial statements to ensure that they logically make sense and are code compliant, especially where figures are received directly from the property team. This should also be extended to manual adjustments made to the fixed asset register to meet the presentational requirements of the PPE note.
2019/20 Management comment	The asset portfolio is significant in size, both in terms of value and volume, and is largely made up of professional valuations which are subject to various judgements, estimation uncertainty and information often not available at the time of the accounts preparation. We will work closely with our experts in Property Services to improve our joint understanding of the accounting requirements and appraise what factors are permissible in making reasonable judgements. We will consider new techniques to value large numbers of low value assets, where it is not always practical or cost effective to value individually. We will also improve our review processes, especially around the rolling programme of valuations, categorisation and completeness of assets within the asset register, noting this must be achieved within the constraints of the statutory accounts closure timetable.
2021/22 Update	We have presented findings in the year although these are not to the extent noted in prior years and not representative of the issues reported in 2019/20. Management constantly strive to improve the processes in this area adapting to the demands of the dynamic reporting framework. Superceded.

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Area	PFI
Rating	(yellow)
2019/20 Observation	During our testing of PFI we have held a number of conversations with management over the course of the year, including a number with our PFI specialist. Accounting for PFIs and the underlying models can be complex. We recommend that management ensures that they have members of the team who fully understand the models and related Code guidance to ensure that too much reliance is not placed on the audit process to identify errors in the models in the first instance.
2019/20 Management comment	PFI accounting models are very complex. Following staff changes and handover this year, new members of the team are being trained in the Code guidance. Over the last couple of years, staff have worked with and welcomed advice from the EY audit team and PFI specialist, which identified and resulted in the correction of some transactions.
2021/22 Update	In the year we have identified disclosure adjustments necessary to amend a transaction relating to PFI, however the underlying understanding of the transaction was appropriate and we have no identified any issues in the area in either 20/21 or 21/22. Closed

Assessment of Control Environment – follow-up on prior year recommendations

Area	Debtors and creditors listings	Rating	

2019/20 Observation

Consistent with the prior year we have experienced difficulties in obtaining a list of year end balances at the transaction level for debtors and creditors, with numerous iterations being received before being able to select our samples. Whilst we understand that the listing are compiled from various sources, additional review procedures should be put in place to ensure that information being provided for audit is complete., accurate and represents the transactions outstanding at the end of the financial year.

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2019/20 Management comment

We recognise the information we provide to audit has not been consistent or sufficiently detailed and welcome this audit recommendation to help us improve our procedures and review processes.

2021/22 Update

There have been significant improvements in this area over the subsequent two audits. Whilst there are still challenges due to the councils systems and processes, audit and management have an agreed approach for the provision of listings and our sampling thereon.

Closed.

Area	Supporting information for key judgements	Rating	

2019/20 Observation

During our testing of provisions we identified instances where judgements applied by management were not wholly supportable. For example, an additional adjustment of 49% was applied to the NDR provision in the current year without sufficient evidence to support this being appropriate. Whilst we have been able to undertake alternative procedures to gain reasonable assurance over the accuracy of the provision, management should ensure that all estimates and judgements are robustly evidenced and supported.

2019/20 Management comment

We accept that the information required by audit to evidence judgements can be improved and welcome this audit recommendation to help us better demonstrate our appraisal and challenge processes.

2021/22 Update

Judgements continue to be a key area of audit focus and the requirements will not diminish in this area. We continue to robustly challenge management in this area and although improvements have been made, we would encourage management, particularly in relation to NNDR Appeals, to continue to apply their own challenge and document different outcomes.

Closed

Assessment of Control Environment – follow-up on prior year recommendations

Area	Schools balances
Rating	
2019/20 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.
2019/20 Management comment	In recent years the statutory deadline for closing the accounts has been brought forward to May, with Councils encouraged to use estimates to help achieve this much-reduced reporting timetable. The Easter holidays in Sheffield are fixed to the first two weeks in April every year, meaning schools are not open for most of the accounts' closedown period, so it was previously agreed with external audit that schools would estimate and accrue for any remaining transactions in month 12, and update month one of the following year with differences in actuals. For the 2020/21 year-end, the statutory deadline has been extended to June 2021 due to the ongoing working pressures associated with COVID. Therefore a review step has been built in the accounts' closure timetable to review and adjust for differences between estimates and actuals if needed. However, if in future years the deadline reverts to May, this additional step will not be achievable in the time allowed and estimates will need to be relied upon again. We will support schools to assist the auditors in evidencing balances and bank statements.
2021/22 Update	There have been significant improvements in this area over the subsequent two audits. We identified issues in relation to Officers Remuneration which are merged in the following update. Closed.

Area	Senior officer remuneration and related party transactions
Rating	
2019/20 Observation	During our audit work we identified and number of errors and omissions in the compilation of the senior officer remuneration and related party transactions notes. Additional procedures should be put in place to ensure the completeness and accuracy of the information to be included in the financial statements. Councillors and Officers should also ensure that all potential related parties are disclosed on their declaration of interests.
2019/20 Management comment	We note the audit finding and will work with the necessary teams involved to improve the completeness and accuracy of the data collection and review processes.
2021/22 Update	Related parties, in particular, in relation to members interests, has been reported on in each of the subsequent years. We identified issues this year in relation to Senior Officer Remuneration. Merged with other recommendations.

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Assessment of Control Environment – follow-up on prior year recommendations

Area	Starters and leavers testing
Rating	(yellow)
2019/20 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. a new starter who commenced work and had been paid prior to a contract being issued and signed.
2019/20 Management comment	We will work with HR and Payroll to improve processes and ensure robust review / assurance steps are in place.
2021/22 Update	Issues in the current year have been limited to the provision of information from the payroll providers for Schools, including Capita. Closed.

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Area	Exit Packages
Rating	(green)
2019/20 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.
2019/20 Management comment	COVID restrictions applying to Council offices meant that where some information was held in paper format, this was not accessible. Every effort was made to provide alternative information to assist with audit requirements.
2021/22 Update	Issues reported in the current year relate to different factors and as such we regard this recommendation as closed.

Assessment of Control Environment – follow-up on prior year recommendations

Area	Expenditure/ payables cut off	Rating	

2019/20 Observation

During our testing of expenditure and payables cut off and unrecorded liabilities testing we identified a number of errors where transactions are not being recorded in the correct financial year. In all instances, 12 months of expenditure had been included in the financial statements, however, the accruals concept had not been applied, with the transactions being recorded on a cash basis. Management should ensure that all transactions are recoded in the year where the goods or services have been received.

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2019/20 Management comment

Where estimates are difficult to calculate in a timely or cost-effective way, the practice has been to include 12 months of rolling actuals in each annual accounts (e.g. for utilities costs). This has been a widely used and accepted practice across the sector for many years. If this approach is no longer acceptable to external audit, then the team will look at ways to use estimates and accruals to calculate the annual spend, noting that this may be less accurate with judgements open to audit challenge, when they compare these estimated to the later actuals. It will also result in more than 12 months expenditure being included in one accounting period whilst we make the change, which is arguably misleading. We would prefer to continue with our previously accepted practice.

2021/22 Update

We continue to report the in-year impact of this practice and would highlight whether there is a significant impact through our reporting of unadjusted errors.

08 Data Analytics

Data analytics

Analytics Driven Audit

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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 2021/22, our use of these analysers in the authority's audit included testing income recognition, 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.

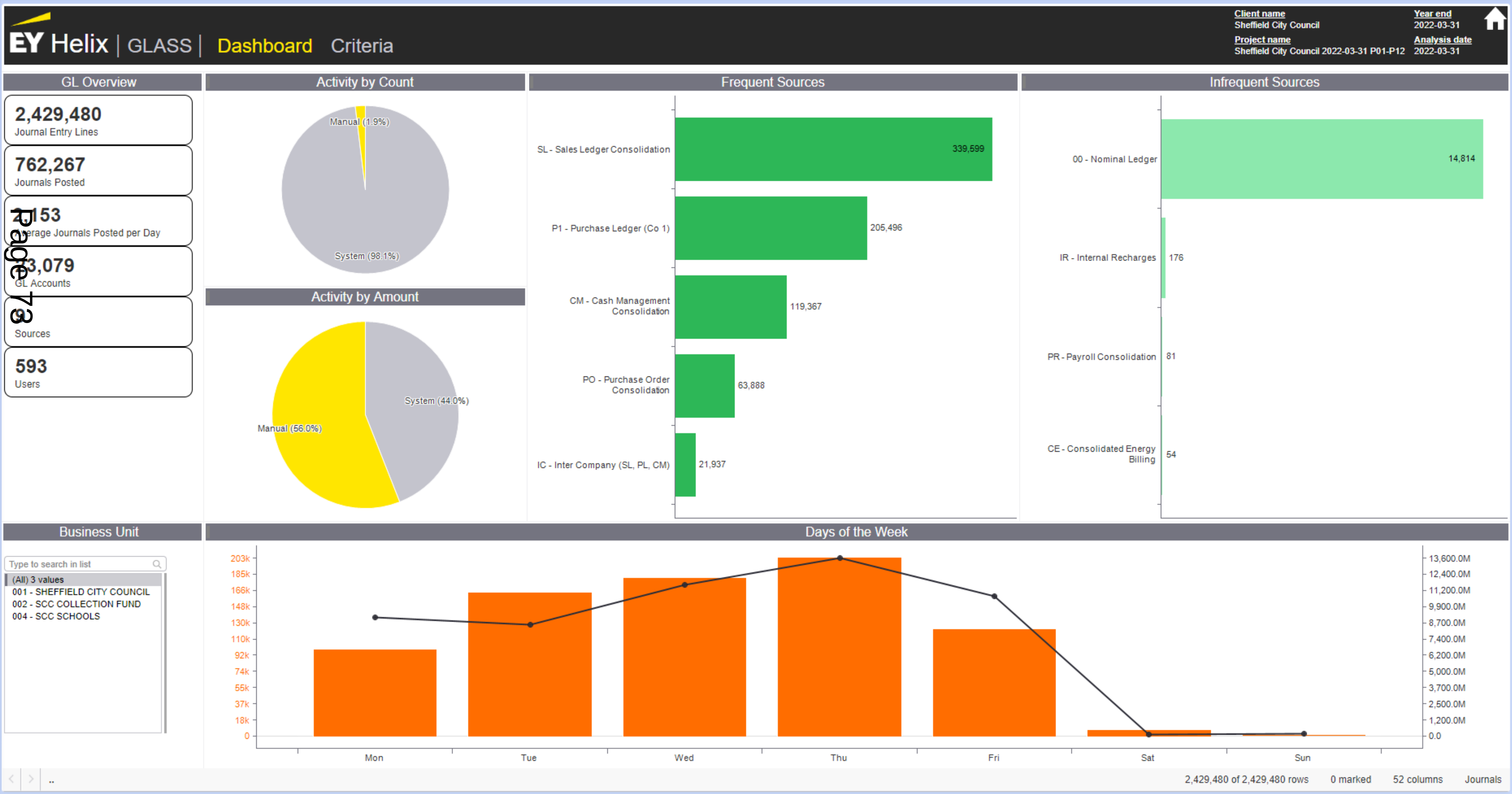
Payroll Analysis

We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year across payroll codes. 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 the year. 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.



Data Analytics Journal Entry Testing

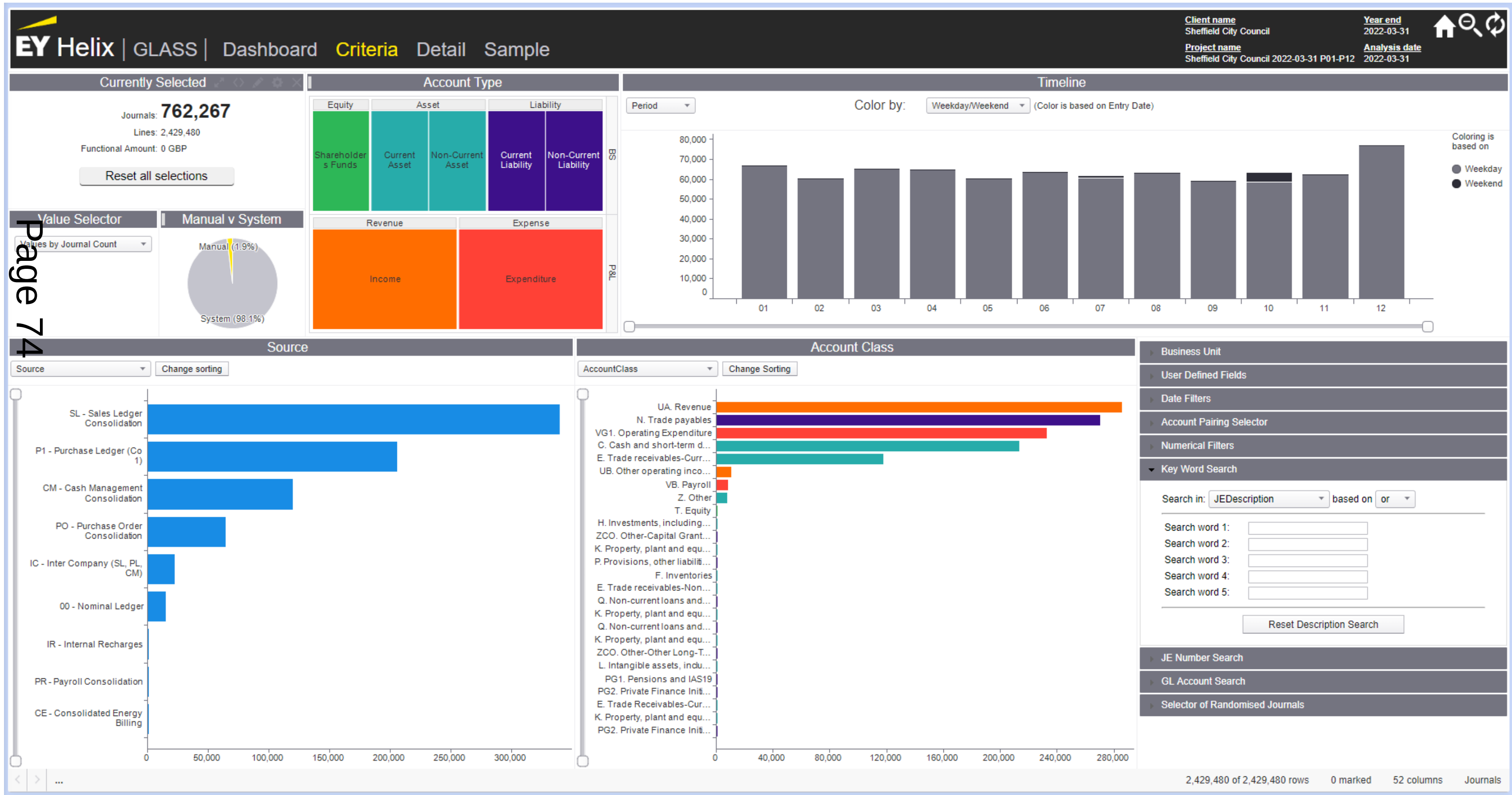
What is the risk?

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 2022



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

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report presented in September 2022.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit and Standards Committee in September 2023.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on the certification of the Authority's Housing Benefits return. We have adopted the necessary safeguards in our completion of this work

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.
There are no relationships from 1 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The following page includes a summary of the fees that you have paid to us in the year ended 31 March 2022 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services have 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, other than the continuation of services relating to Housing Benefit subsidy certification and teachers pension certification.

Confirmation and analysis of Audit fees

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 2022.

Table 1	Fee 2021/22 £	Fee 2020/21 £
Scale fee	143,988	143,988
Additional fees: (Note 2)	155,076*	125,300
Total audit	**299,064**	**269,288**
Non-audit services : - Housing Benefits	35,500*	35,500*
Total non-audit services	**35,500**	**35,500**
Total fees	**334,564**	**304,788**

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All fees exclude VAT **** Indicative***

As highlighted in the Redmond Report, local government external audit fees have not kept pace with regulatory change. We believe that changes in the work required to address professional and regulatory requirements and scope changes associated with the risk of the organisation mean that the scale fee for the Council should more realistically set at a level that reflects the complexity and risk profile of the Council, and the resulting hours required to delivery the audit. The scale fee is set by PSAA Limited.

We wrote to management and the Audit & Standards Committee Chair setting out our considerations on the sustainability of UK local public audit. A base fee of £143,988 was prescribed by PSAA for the 20/21 audit but as set out in our discussions with management and the Audit and Standards Committee for, the scale fees are impacted by a range of factors which result in additional work. We have proposed an additional fee for 20/21 of £125,300 and for 21/22 of £155,076, although the latter is still subject to the completion of our remaining audit procedures.

Following the completion of the audit, we will discuss these proposals in more detail with management before we submit our variation to PSAA Ltd.

We have broken the fees in table 1 in the second table below to provide additional insight into our submission which will be presented to management.

Accounts Area	Proposed Variation	
	2021/22 £	2020/21 £
Pensions	5,828	5,828
Pensions – Triennial	5,968	-
Reduced materiality	42,200	42,200
PPE (inc Infrastructure)	52,530	22,285
VFM	29,040	24,720
Other	19,510	30,268
Total	155,076	125,300

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

Appendix A

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Property, Plant and Equipment including Assets Held for Sale	Substantively tested all relevant assertions	Substantively tested all relevant assertions	N/A – consistent approach as the prior year in all areas.
Heritage Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investment Properties	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Intangible Assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Cash and Cash Equivalents	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Net Pension Liability	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Debtors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Creditors (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Borrowing (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Provisions (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
PFI / PPP Finance Lease Liability (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Capital Grants Receipts in Advance (short and long term)	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Usable and Unusable Reserves	Substantively tested all relevant assertions	Substantively tested all relevant assertions	
Investments (short and long term)	Immaterial - Substantively tested assertion for presentation and disclosure	Immaterial - Substantively tested assertion for presentation and disclosure	
Inventories			

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Appendix B

Summary of communications

Date	Nature	Summary
22 April 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
10 June 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
14 June 2021	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
27 July 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
29 July 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
7 September 2021	Meeting	Senior members of the audit team held progress update with Senior members of management
21 September 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
23 September 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
27 September 2021	Meeting	Senior members of the audit team held progress update with Senior members of management
4 October 2021	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
21 October 2021	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
14 December 2021	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
10 January 2022	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
22 March 2022	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
24 March 2022	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
30 March 2022	Meeting	Core finance and audit teams met to de-brief the 2020/21 audit
27 April 2022	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
7 July 2021	Meeting	Senior members of the audit team, attended a closed session with Audit and Standards Committee members
27 July 2022	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
		Continued overleaf

Appendix B

Summary of communications

Date	Nature	Summary
20 September 2022	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
22 September 2022	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee, where the Audit Plan was presented
20 October 2022	Meeting	Senior members of the audit team, attended a closed session with Audit and Standards Committee members
15 November 2022	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
17 November 2022	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
15 December 2022	Meeting	Senior members of the audit team held quarterly catch-up with Senior members of management
20 January 2023	Meeting	Senior members of the audit team met with senior members of management to discuss audit progress
31 January 2023	Meeting	Senior members of the audit team met with the Chair of the Audit and Standards Committee to discuss audit progress
14 February 2023	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
16 February 2023	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
09 March 2023	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee
04 August 2023	Meeting	Audit Senior Manager met with new s151 officer and other senior members of the finance team
12 September 2023	Meeting	Senior members of the audit team met with s151 and other senior members of the finance team
19 September 2023	Meeting	Senior members of the audit team, attended Audit and Standards Committee Pre Meet
21 September 2023	Audit Committee	Senior members of the audit team, attended Audit and Standards Committee

In addition to the above specific meetings and letters the audit team met with the financial closedown team on a weekly basis throughout the audit to discuss audit progress and findings.

Appendix C

Required communications with the Audit and 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 and 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 September 2022
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report September 2022
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 March 2023 Updated ARR September 2023
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 March 2023 Updated ARR September 2023
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 March 2023 Updated ARR September 2023

Appendix C

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Subsequent events	▸ Enquiry of the Audit and Standards Committee where appropriate regarding whether any subsequent events have occurred that might effect the financial statements.	Audit results report March 2023 Updated ARR September 2023
Fraud	▸ Enquiries of the Audit and Standards Committee to determine whether they have knowledge of any actual, suspected or alleged fraud effecting 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 and Standards Committee responsibility.	Audit results report March 2023 Updated ARR September 2023
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 March 2023 Updated ARR September 2023

Appendix C

		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.	Audit planning report September 2022 and Audit results report March 2023 Updated ARR September 2023
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures.	Audit results report March 2023 Updated ARR September 2023
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 and Standards Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit and Standards Committee may be aware of	Audit results report March 2023 Updated ARR September 2023
Significant deficiencies in internal controls identified during the audit	▸ Significant deficiencies in internal controls identified during the audit.	Audit results report March 2023 Updated ARR September 2023

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 March 2023 Updated ARR September 2023
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 March 2023 Updated ARR September 2023
Auditors report	▶ Any circumstances identified that effect the form and content of our auditor's report	Audit results report March 2023 Updated ARR September 2023
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 September 2022 Audit results report March 2023 Updated ARR September 2023

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Appendix D

Draft management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]

October 2023

Ernst & Young
One Colmore Square,
Birmingham,
B4 6HQ

Dear Sirs

This letter of representations is provided in connection with your audit of the financial statements Sheffield City Council ("the Council") for the year ended 31 March 2022. 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 2022 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 2021/22.

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 2021/22.
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 2021/22, 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 2021/22, 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 and the effects of the conflict and related sanctions in Ukraine, Russia and/or Belarus on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarized in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the (consolidated) financial statements taken as a whole. [with explanations why they haven't been amended]
6. We confirm the Council does not have securities (debt or equity) listed on a recognized exchange

Management representation letter

Management Rep Letter

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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 improprieties;
   - 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.

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 and including those related to the conflict and related sanctions in Ukraine, Russia and/or Belarus.
3. We have made available to you all minutes of the meetings of the Council and committees, including the Audit & Standards Committee and the Co-operative Executive (formerly the 'Cabinet'), (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: 9 March 2023.
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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
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

Management representation letter

Management Rep Letter

7. From the date of our last management representation letter (24 February 2022) through the date of this letter we have disclosed to you, to the extent that we are aware, any (1) 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, and (2) ransomware attacks when we paid or are contemplating paying a ransom, regardless of the amount.
8. We have disclosed to you and provided you full access to information and any internal investigations relating to, unauthorized access to our information technology systems that has a material effect on the financial statements, including disclosures.

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.

E. Going Concern

1. Note 4 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.

F. Subsequent Events

1. There have been no events, including events related to the COVID-19 pandemic, and including events related to the conflict and related sanctions in Ukraine, Russia and/or Belarus, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other Information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the content of the Statement of Accounts other than the financial statements and your audit opinion thereon, being 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

H. Climate-related matters

1. We confirm that to the best of our knowledge all information that is relevant to the recognition, measurement, presentation and disclosure of climate-related matters has been considered, including the impact resulting from the commitments made by the Council, and reflected in the financial statements.
2. The key assumptions used in preparing the financial statements are, to the extent allowable under the requirements of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, aligned with the statements we have made in the other information or other public communications made by us.

I. 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, 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

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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.

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

1. We confirm that the significant judgments made in making the accounting estimate on the Valuation of Property Plant and Equipment, Investment Properties and assets associated with the Major Sporting Facility have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate on the Valuation of Property Plant and Equipment, Investment Properties and assets associated with the Major Sporting Facility.
3. We confirm that the significant assumptions used in making the accounting estimate on the Valuation of Property Plant and Equipment, Investment Properties and assets associated with the Major Sporting Facilities appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.
5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate on the Valuation of Property Plant and Equipment, Investment Properties and assets associated with the Major Sporting Facilities.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.
7. 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 2022, and that they are not materially misstated
8. We confirm that for assets carried at historic cost that no impairment is required.

K. 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.

L. Valuation of Pension Assets and Liabilities

1. We confirm that the significant judgments made in making the accounting estimate for the valuation of pension assets and liabilities have taken into account all relevant information and the effects of the COVID-19 pandemic of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the accounting estimate for the valuation of pension assets and liabilities.
3. We confirm that the significant assumptions used in making the accounting estimate for the valuation of pension assets and liabilities appropriately reflect our intent and ability to carry out the specific courses of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s), including those describing estimation uncertainty and the effects of the COVID-19 pandemic, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Management representation letter

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5. We confirm that appropriate specialized skills or expertise has been applied in making the accounting estimate for the valuation of pension assets and liabilities.
6. We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements, including due to the COVID-19 pandemic.

M. Major Sporting Facilities

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.

N. 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.

O. Reserves

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

P. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet(s), 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(s).
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
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

Yours faithfully,

____

(s151 Officer)

____

(Chairman of the Audit Committee)

EY | Assurance | Tax | Transactions | Advisory

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