



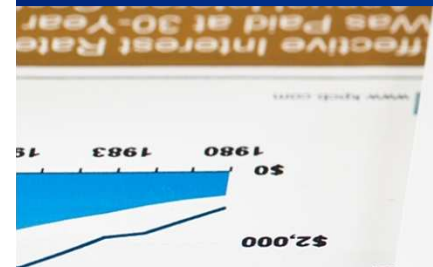
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Annual Audit Letter 2012/13

Page 19

Sheffield City Council

October 2013





Contents

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Report sections

- Headlines

Appendices

1. Key issues and recommendations
2. Summary of reports issued
3. Audit fees

Page

2

4

5

6

This report is addressed to the Council and has been prepared for the sole use of the Council. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission has issued a document entitled *Statement of Responsibilities of Auditors and Audited Bodies*. This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. We draw your attention to this document which is available on the Audit Commission's website at www.auditcommission.gsi.gov.uk.

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

If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact John Prentice, the appointed engagement lead to the Council, who will try to resolve your complaint. If you are dissatisfied with your response please contact Trevor Rees on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk, who is the national contact partner for all of KPMG's work with the Audit Commission. After this, if you are still dissatisfied with how your complaint has been handled you can access the Audit Commission's complaints procedure. Put your complaint in writing to the Complaints Unit Manager, Audit Commission, 3rd Floor, Fry Building, 2 Marsham Street, London, SW1P 4DF or by email to complaints@audit-commission.gsi.gov.uk. Their telephone number is 0303 444 8330.



Section one Headlines

This report summarises the key findings from our 2012/13 audit of Sheffield City Council (the Council).

Although this letter is addressed to the Members of the Council, it is also intended to communicate these issues to key external stakeholders, including members of the public.

Our audit covers the audit of the Council's 2012/13 financial statements and the 2012/13 VFM conclusion.

Page 21

VFM conclusion	<p>We issued an unqualified value for money (VFM) conclusion for 2012/13 on 27 September 2013.</p> <p>This conclusion means we were satisfied that you have proper arrangements for securing financial resilience and challenging how you secure economy, efficiency and effectiveness.</p> <p>To arrive at our conclusion we looked at your financial governance, financial planning and financial control processes, as well as how you are prioritising resources and improving efficiency and productivity.</p>
Risk areas	<p>We identified a number of significant risks to our audit opinion and VFM conclusion and considered the arrangements you have put in place to mitigate these.</p> <p>Our work identified the following significant matters:</p> <ul style="list-style-type: none"> ■ The Council successfully delivered its 2012/13 budget, and set a budget for 2013/14 incorporating £49.6m of savings proposals, which are required to enable the Council to deliver a balanced budget. Early in the 2013/14 financial year, the Council identified that there is overspending versus budget within its Adult Social Care service. If uncorrected the Council estimates that this could lead to an £11m overspend in 2013/14. The Council's Director of Corporate Resources is currently leading efforts to address this issue. ■ Digital Region Ltd (DRL). The Council is aware that it, in conjunction with the other three SY Metropolitan Councils, decided in August 2013 to wind-up DRL, the company set up to provide fast digital broadband across South Yorkshire. The SY Councils took this decision with reluctance, given the considerable sums of public money, including EU grant-aid, that were invested in this company. However the Councils' view was that continuing with the venture carried an unacceptable risk of further losses. We reviewed the accounting for the estimated wind-up costs, were satisfied that it is materially correct, and formed the view that we were not required to qualify our 2012/13 vfm conclusion for this matter. However, given the cost to the public purse, we strongly support the Councils' plan to carry out a full independent evaluation of this project to see what lessons can be learned. Recommendations in relation to DRL are included in Appendix 1. ■ South Yorkshire Trading Standards Unit (SYTSU). The Council has still not reached agreement of the sums due from the other three SY Councils. The Council has prepared papers for submission to Court if agreement cannot be reached. Given the lack of any payments to date and protracted delays, the Council needs to set a timeline for concluding negotiations or requesting the Court to proceed to the next stage.
Audit opinion	<p>We issued an unqualified opinion on your financial statements on 27th September 2013. This means that we believe the financial statements gave a true and fair view of the financial position of the Council and of its expenditure and income for the year.</p>



Section one Headlines (continued)

We provide a summary of our key recommendations in Appendix 1.

All the issues in this letter have been previously reported. The detailed findings are contained in the reports we have listed in Appendix 2.

Page 22

Financial statements audit	<p>The significant findings arising from our financial statements audit were:</p> <ul style="list-style-type: none"> ■ Our audit identified seven audit differences. All were presentational only and none of them impacted on the Movement on the General Fund or Balance Sheet. One amendment did result in the Invest to Save earmarked reserve (which had a negative balance of £25.1m) being offset against the Major Sporting Facilities earmarked reserve. All of these items were adjusted for by the Council. ■ We identified one significant uncorrected difference that was not adjusted by management, as it did not have a material effect on the financial statements. This difference, totalling £8.3m, related to the calculation of the provisions necessary for insurance claims received where, for a number of claims, the Council included the full potential amounts payable as a provision, rather than splitting the balance between a provision and an insurance reserve. ■ The Council continues to produce good quality accounts and working papers. Officers dealt efficiently with audit queries and the audit process was completed within the planned timescales.
Annual Governance Statement	<p>We reviewed the Council's <i>Annual Governance Statement</i>, and concluded that it was consistent with our understanding.</p>
Whole of Government Accounts	<p>We reviewed the consolidation pack which the Council prepared to support the production of Whole of Government Accounts by HM Treasury. We reported that the Council's pack was consistent with the audited financial statements.</p>
High priority recommendations	<p>We raised two high priority recommendations as a result of our 2012/13 audit work, both in relation to DRL as discussed earlier. These recommendations are detailed in Appendix 1, together with the action plan agreed by management.</p> <ul style="list-style-type: none"> ■ The Council should ensure it has appropriate arrangements to manage the closure of DRL to reduce the financial impact on the Council. ■ The Council should commission a full independent review of the DRL project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.
Certificate	<p>We cannot issue a certificate to close the 2012/13 audit before the work on the two objections to the Council's 2011/12 financial statements is completed. A decision has been issued in relation to the objection on the accounting for South Yorkshire Trading Standards Unit, although we await confirmation that there has not been a High Court appeal. We intend to issue revised provisional views shortly in relation to the taxi licensing objection. Due to these objections, the certificate to close the 2011/12 audit also remains outstanding.</p>
Audit fee	<p>Our total fees for 2012/13 were £277,260 excluding VAT. These fees includes the scale fee of £247,860 compared to a scale fee of £413,100 for 2011/12. Further detail is contained in Appendix 3.</p>



Appendix 1: Key issues and recommendations

This appendix summarises the high priority recommendations that we identified during our 2012/13 audit, along with your responses to them.

Lower priority recommendations are contained, as appropriate, in our other reports, which are listed in Appendix 2.

We will hold a debrief meeting with your Finance Manager (Strategic Finance) to discuss the learning points from this year's audit, including minor issues that we have not formally reported.

No.	Issue and recommendation	Management response/ responsible officer/ due date
1	The Council should ensure it has appropriate arrangements to manage the closure of DRL to reduce the financial impact on the Council.	Agreed – Chief Executive. Project plan is in place and will be kept under review as the closure progresses.
2	The Council should commission a full independent review of the Digital Region Project to identify the lessons that should be learned. This review should be carried out as soon as possible and jointly with the other stakeholders.	Agreed – Chief Executive. Specification should be agreed by 30 November. Further timetable will depend upon arrangements made but will be set out by 30 November.

Appendix 2: Summary of reports issued

This appendix summarises the reports we issued since our last *Annual Audit Letter*.

Page 24

Audit Fee Letter (August 2012)

The *Audit Fee Letter* set out the proposed audit work and draft fee for the 2012/13 financial year. This was issued later than usual this year as we were only formally appointed as your auditors from September 2012.

2012

August

Dec

Certification of Grants and Returns (December 2012)

This report summarised the outcome of our certification work on the Council's 2011/12 grants and returns.

External Audit Plan (January 2013)

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

2013

January

April

May

Housing and Council Tax Benefits – additional assurance (April 2013)

This report summarises our additional work on the above area.

Review of tax efficient employee benefits (July 2013)

This report summarises our review of the potential for the Council to increase its provision of various tax efficient employee benefits.

June

July

August

Report to Those Charged with Governance (September 2013)

The *Report to Those Charged with Governance* summarised the results of our audit work for 2012/13 including key issues and recommendations raised as a result of our observations.

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

Auditor's Report (September 2013)

The *Auditor's Report* included our audit opinion on the financial statements, our VFM conclusion and our certificate.

September

October

November

Annual Audit Letter (October 2013)

This *Annual Audit Letter* provides a summary of the results of our audit for 2012/13.

This appendix provides information on our final fees for 2012/13.

To ensure openness between KPMG and your Audit Committee about the extent of our fee relationship with you, we have summarised the outturn against the 2012/13 planned audit fee.

External audit

Our final fee for the 2012/13 audit of the Council was £252,760. This is an overall reduction of 39% on the comparative total fee for 2011/12 of £413,100 (before the Audit Commission rebate of £33,048). This reflects the significant reductions made nationally by the Audit Commission to its scale fees.

The final fee compares to a planned fee of £247,860. The reason for this variance is that we agreed with officers a fee of £4,900 for extra work, which was not allowed for in our initial plan. This work reflected the additional costs incurred in considering the impact on the Council's financial statements and on our value for money conclusion of the Council's decision (in conjunction with its partner SY Metropolitan Councils) to terminate its arrangement with Digital Region Ltd to provide broadband across South Yorkshire.

Our fees are still subject to final determination by the Audit Commission.

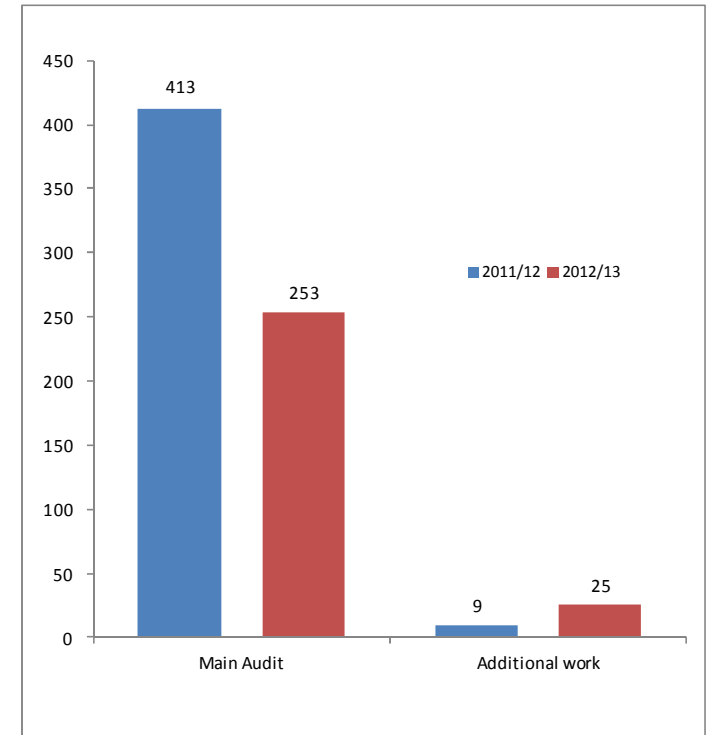
Certification of grants and returns

Our grants work is still ongoing and the fee will be confirmed through our report on the *Certification of Grants and Returns 2012/13* which we are due to issue in January 2014.

Other services

Other work was undertaken at the Council's request. We charged £15,000 for a review of tax efficient employee benefits and £9,500 for additional assurance work reviewing the Council's arrangements for compiling its benefits claim. This work was not related to our responsibilities under the Audit Commission's *Code of Audit Practice*.

External audit fees 2012/13 (£'000)





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