

Sheffield City Council

**Auditor's Annual Report
Year ended 31 March 2021**

24 March 2022



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working world

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Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website ([Terms of Appointment – PSAA](#)). The 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 and further guidance (updated July 2021)” issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit Committee and management of Sheffield City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Sheffield City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Sheffield City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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.

Section 1

Executive Summary

Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
Opinion on the Council's:	
Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We issued our auditor's report on 01 March 2022.
Going concern	We have concluded that the Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statements	Financial information published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
Reports by exception:	
Value for money (VFM)	We had no matters to report by exception on the Council's value for money arrangements. We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.

Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We presented an Audit Results Report to the Audit and Standards Committee on 20 January 2022. The report set out areas of audit work to be completed, when this work was substantially completed we provided an updated report alongside our opinion on 01 March 2022.
We have not yet issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 is delayed and has not yet been issued.

Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated July 2021)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in relation to the valuation of property, plant and equipment and misclassification of expenditure. As a result, we have proposed an associated additional fee which we will discuss with the Executive Director of Resources. We include details of the final audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Janet Dawson

Partner

For and on behalf of Ernst & Young LLP

Section 2

Purpose and responsibilities

Purpose and responsibilities

This report summarises our audit work on the 2020/21 financial statements.

Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

Responsibilities of the appointed auditor

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we issued on 20 July 2021. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

Financial Statement Audit



Financial Statement Audit

We have issued an unqualified audit opinion on the Council's 2020/21 financial statements.

Key issues

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 01 March 2022, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 20 January 2022 Audit and Standards Committee meeting. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p>Misstatements due to fraud or error - management override of controls</p> <p>An ever present risk that management is in a unique position to commit 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.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none"> material weaknesses in controls or evidence of material management override; instances of inappropriate judgements being applied; or other transactions during our audit which appeared unusual or outside the Sheffield City Council's normal course of business.
<p>Misclassification of revenue or expenditure, including accounting for Covid-19 related government grants</p> <p>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 have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none"> material instances of incorrect capitalisation of revenue expenditure; instances of expenditure incorrectly classified as REFCUS; instances of journal entries incorrectly moving expenditure items to capital codes; or material issues or unusual transactions to indicate any misreporting of the Council's financial position. <p>Our discussions with management identified that the accounting for infection control grants was inconsistent with our expectations and as such management have agreed to amend to show these grants to be treated with the Authority acting as principal rather than agent. The total amendment required was £12.6m</p>
<p>Valuation of fair value land and buildings</p> <p>Land and buildings is the most significant balance in the Sheffield City Council's balance sheet. The valuation of land and buildings is complex and is subject to a number of assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements.</p>	<p>We reviewed the methodology used and assumptions applied through use of, and consultation with, our EY Real Estate specialists. Our testing of the information sent to the valuer, the application of the valuation methodology and reporting in the financial statements did not identify any issues to report.</p>

Financial Statement Audit (continued)

In addition to the significant risks we also concluded on the following areas of audit focus.

Other area of audit focus	Conclusion
<p>Property, plant and equipment - Valuation of EUV, EUV-SH and DRC Assets</p> <p>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</p>	<ul style="list-style-type: none"> • Our testing of the information sent to the valuer and the application of the valuation to the financial statements raised no issues to report. • At the commencement of the audit fieldwork in this area an unusual balance was identified which indicated a formula error in the Council's workpapers. Management corrected this to enable us to be able to start our substantive testing. The total adjustment made in relation to this was £53.4m. • Subsequent to the publication of the draft financial statements, more recent data became available in relation to the Housing Price Index (HPI) as at 31 March 2021. This fluctuates each month and therefore, in order to represent the most accurate valuation close to the signing date, management updated their valuation based on the index as at December 2021. This has resulted in management processing an update to the financial statements with a net decrease of £5.9m when compared with the index based on the HPI data downloaded in June 2021
<p>Valuation of investment Properties</p> <p>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 £19m.</p>	<p>Our review of the contract underlying the valuation for Small Format advertising space has identified that the valuation of the Investment Property is understated. The valuation provided by the external valuers has been provided without recognition of the provision of an amount of advertising space that remains at the use of the Council. Our internal valuation specialists have proposed a range for the judgemental misstatement as between £1.8m and £3m.</p>
<p>Pension Liability valuation</p> <p>The pension liability is a material balance in the Balance Sheet. Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. 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.</p>	<p>Our work on the liabilities recognised, and the assumptions underpinning them, have raised no significant issues.</p> <p>The pension fund auditor has alerted us to an unadjusted error of £9.7m in relation to the return on investment 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 £2.6m, representing the SCC share of the fund.</p>

Continued over.

Financial Statement Audit (continued)

Other area of audit focus	Conclusion
<p>PFI and Service Concession Arrangements</p> <p>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.</p>	<p>No issues identified in this area.</p> <p>In the current year audit we confirmed management had processed errors identified in the prior year audit. These errors totalled £2.5m and were reported in our Audit Results Report in 2019/20.</p>
<p>Going concern</p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Sheffield City Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>We agreed with management's assessment that the Council remains a going concern. We were satisfied that the disclosures appropriately presented their assessment and the risks and assumptions management have considered in producing this. We were also satisfied with the disclosures included in the financial statements in relation to the basis of preparation of the accounts. The Council provided cash flow projections to the end of March 2023, demonstrating that the Council forecasted continued liquidity beyond the period of our assessment.</p> <p>As at 31 March 2021 the Council had general and earmarked reserves (inclusive of school's balances) of £374.5m. Over the period to 31 March 2023, the Council is planning to use an amount of reserves that is significantly higher than has been required in previous financial years to balance its budget.</p> <p>However, the Council has set a limit on the reserves being used and is working to identify detailed saving plans to ensure that the use of reserves remains within that limit. Reserves that are earmarked for specific purposes and needs will remain intact, leaving over £150m to maintain the financial sustainability of the Council in the medium term. Whilst there is risk in the use of reserves, and the use of reserves to maintain a balanced budget is not sustainable in the longer term, the level of reserves currently forecast through to 31 March 2023 is considered to be sufficient to ensure that the Council is a going concern.</p>

Financial Statement Audit (continued)

Audit differences

The following misstatements were identified which management has corrected in the financial statements:

- £12.6m adjustment to both service income and service expenditure in respect of Covid Grants that had been treated where the Council was acting as Agent, but substance the underlying arrangement suggested the Council was principal.
- £5.9m reduction in the valuation of Council Dwellings as part of agreed exercise for management to review the constituent Housing Price Index as close as practicable to the opinion date.
- Due to a formula error in a spreadsheet, the draft statements included an overstatement of the gain on revaluation on PPE. The required adjustment related to this totalled £53.4m. The opposite entry was a reduction in the (Surplus) / deficit on revaluation of non-current assets within the CIES.

We also noted misstatements of a disclosure nature that management amended; these impacted Note 7 - Expenditure and Income Analysed by Nature, Exit Packages, related party transactions and the Expenditure Funding Analysis..

We also identified the following misstatements which have not been corrected by management:

- £2.6m SCC share of unadjusted error identified by the auditor of South Yorkshire Pension Authority in relation to a £9.7m overstatement of Pooled Investment Vehicles.
- £3m of 2020/21 expenditure omitted from accruals in line with SCC procedures to account for expenditure as it is disbursed where that expenditure is broadly consistent on a monthly and annual basis.
- £2.4m understatement of investment properties based on the midpoint of a range of values proposed by our internal valuation specialists.
- £3.27m understatement of Council Dwellings based on analytical procedures performed by the audit team to assess variants of beacon properties that were not included in the annual valuation process.
- Turnaround impact of Prior Year errors not adjusted – unadjusted increase of £9.7m to the surplus. This is the net position of 11 items ranging in impact from £1.6m to £19.2m.

Management decided not to adjust for these audit differences on the grounds of materiality and included their justification in the letter of representation.

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	We determined planning materiality to be £26.1m as 1.8% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1.3m.

Section 4

Value for Money

Value for Money (VFM)

<hr/> <p>We identified risks of significant weaknesses in the Council's VFM arrangements for 2020/21</p> <hr/>	<p>Scope and risks</p> <p>We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment to the 20 July 2021 meeting of the Audit and Standards Committee which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Executive Director of Resources and evaluation of associated documentation through our regular engagement with management and the finance team. We updated our finalised assessment in the Audit Results Report presented in January 2022. We reported that we had identified risks of significant weakness in the Council's VFM arrangements concerning Financial Sustainability, Governance and Improving economy, efficiency and effectiveness, with specific links drawn to the Council's regeneration schemes: West Bar and Heart of the City.</p>
<hr/> <p>We had no matters to report by exception in the audit report</p> <hr/>	<p>Reporting</p> <p>We completed our planned VFM arrangements work in early 2022 and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.</p>
<hr/> <p>Our VFM commentary highlights relevant issues for the Council and the wider public.</p> <hr/>	<p>VFM Commentary</p> <p>In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:</p> <ul style="list-style-type: none">• 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.

Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Financial sustainability

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Based on our review of Council minutes, documents and reports presented at relevant Committee meetings, the Council has the arrangements in place that we would expect to see to enable it to carry out its plan and manage its resources effectively. This ensures that the Council can continue to deliver its services.

How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them

As part of the Council's budget setting process, each service is required to develop Budget Implementation Plans (BIPs). These BIPs detail the Council's spending for the year ahead showing the activities to be undertaken, anticipated pressures and savings to be delivered. These identified pressures per service are quantified.

The Council's Corporate Management Team (CMT) comprising the Chief Executive, Executive Directors and the Directors of Public Health and Policy, Performance and Communications and Cabinet Member Representatives, have the responsibility to provide strategic direction. This will include formulating the Council's Medium Term Financial Analysis (MTFA) in order to ensure that adequate resources are available to meet the Council's objectives. The MTFA is a four year financial projection of the Council. The annual budget setting process also informs the MTFA, which is subsequently reviewed annually.

Financial sustainability (continued)

Budgets are monitored by EMT and Cabinet after each section of the Council has analysed sectional expenditure. Towards the financial year-end, identified pressures during the year (noted from the budget monitoring process) are considered and factored into the MTFA.

How the body plans to bridge its funding gaps and identifies achievable savings

Within the existing statutory and regulatory framework, it is the responsibility of the Executive Director of Resources to ensure that the Council has an adequate level of reserves and that there are clear protocols for their establishment and use. The budgets are monitored by EMT and Cabinet. The analysis entails scrutiny over budget line items such whether they are of an income or expenditure nature. Owners of the budget line items make representations to the Overview and Scrutiny Management Committee citing any challenges or opportunities influenced by the status quo.

Our review of the various meeting minutes during 2020/21 and discussions with officers noted that a potential funding gap arose due to Covid-19 and other pressures within Adult Social Care. At times the gap has totalled £74m for 2020/21 alone. Whilst Central Government support has been forthcoming for 2020/21, and for the early part of 2021/22, future funding is not certain and therefore it is not clear that there will be sufficient ongoing support to all costs of and lost income from COVID-19. The Council actively continues to identify and appraise the feasibility of cost reduction plans over the medium term.

How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

The Council follows a business planning process that ensures that it defined its priorities and outcomes. Members and officers allocate the Council's resources in a way that aligns with these priorities and outcomes. Council services and commissioners then set clear objectives and targets that reflect the priorities, outcomes, and the level of resource allocated.

The Council sets fees and charges for a wide range of the services and goods that it provides. The income that is generated from this is a major source of funding that helps to deliver the Council's key priorities as set out in the Corporate Plan. The Council prepares the Corporate Plan that sets out the vision for the Council and Sheffield. It includes what the Council will do over the next three years in order to deliver the vision.

Financial sustainability (continued)

The MTFA links strongly to the Corporate Plan and the Corporate Plan drives the spending priorities that inform the MTFA. This includes allocating the overall expenditure budgets for Locality Areas. The Director of Finance and Commercial Services and the Head of Strategic Finance are responsible for producing the MTFA in conjunction with Executive Directors and recommends measures to the Executive that support the Corporate Plan. This is supported by policy options, savings and efficiencies, and both financial and non-financial information to assist decision-making.

The MTFA sets an integrated financial plan for at least a three year period and forms the foundation of the Annual Revenue Budget and Capital Programme for the next year and projections for at least the following two years.

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

The Council's Executive Management Team (EMT¹) and Cabinet Members have the responsibility for formulating the Council's Medium Term Financial Analysis in order to ensure that adequate resources are available to meet the Council's objectives. All Directors liaise with their sections and come up with budgets which cover all aspects of delivery including workforce, investment and capital. These are then consolidated and deliberated by the EMT ensuring coherence amongst the various sub budgets and the Council's Strategy. The three elements to the financial planning are the MTFA, Annual Revenue Budget and Capital Programme. The Revenue Budget in conjunction with the capital strategy, is put forward to the Overview and Scrutiny Management Committee annually, and it is in this meeting that coherence questions are addressed. It is then also approved and discussed in the full Council meeting.

The MTFA will set an integrated financial plan for at least a three year period and will form the foundation of the Annual Revenue Budget and Capital Programme for the next year and projections for at least the following two years. This will include cash allocation or financial targets for Executive Directors for the forthcoming financial year and guideline allocations / targets for the following two years. The MTFA will also include projections of the Council's reserves and balances.

¹ title of this group correct for financial year 2020/21

Financial sustainability (continued)

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans.

The risk management framework used by Sheffield City Council sets out the methodology and overall approach to managing risk within services, Portfolios and across the Council. The Audit & Standards Committee and internal audit have responsibility for considering the effectiveness of the risk management strategy throughout the authority. The Council also produces a Corporate risk register which identifies all current risks (including financial) facing the council, assigns a risk score based on probability and impact, and outlines the strategy put in place to mitigate the risk. In line with the requirements of the Council's Risk Management Framework:

- as part of the audit planning process, Executive Directors are responsible for managing risk and for informing Internal Audit of the risks that are prevalent in their area. They are also responsible for agreeing and implementing relevant Audit recommendations;
- Directors are responsible for maintaining and monitoring a Service Risks and Assurances log which must include financial risks.

Executive Directors are responsible for identifying and controlling risks in their area and significant financial risks should be reported to the Directors of Business Strategy. The Director of Finance & Commercial Services will report the most significant of these risks to the Council's Executive Management Team on a monthly basis and key risks will be summarised and reported to Members in quarterly budget monitoring reports.

Directors are responsible for their assigned risks as Risk owners. The Risk Register is a living document with action plans stating mitigating factors to manage identified risks. The Risk Register is reviewed annually assessing risk scores and whether Risk Owners have implemented mitigating plans as appropriate.

We identified Financial Sustainability as a significant risk for VFM. From our review we noted a potential risk on expenditure and budget arrangements as a result of government funding and the impact of Covid-19. Whilst Central Government support has been forthcoming for 2020/21, and for the early part of 2021/22, at the time of writing there is no clear indication of whether this support will cover the costs of and lost income from COVID-19 thereby impacting the reserves of the Council.

There was adequate evidence that the Council had adhered to governance processes for setting the 2020/21 budget and MTFAs. Reasonable assumptions were made in preparing the budget and subsequent monitoring mechanisms were in place to enable the Council to take a proactive approach to deviations from the approved budget. Covid-19 pandemic related expenses dominated the budget monitoring process. Whilst the impact of coronavirus was not initially considered for 2020/21 due to uncertainties, the Council developed a response and recovery plan during the year as more information and guidance became available.

Financial sustainability (continued)

The Council continuously monitored the situation and revised the plan quarterly, reporting to EMT and Cabinet.

Operations were impacted by Covid-19 as some services demanded more financial resources (People and Place Portfolios) whilst others were reduced (administration expenses). Covid-19 related expenses were alleviated by:

- savings from reduced operations caused by Covid-19 lockdown;
- the Council's own savings realised from deployed cost cutting mechanisms, and
- government funding specifically for Covid-19 related expenses, alongside specific funding provided by government for other services such as the Major Sporting Facilities grant.

As a result, financial sustainability in 2020/21 was not significantly impacted. However, at the time of reporting, there are uncertainties concerning future government funding which may put a strain on financial sustainability in the near future, as Covid restrictions ease and service requirements are reassessed post pandemic. A greater percentage of reserves have already been earmarked for specific purposes and therefore the Council's financial flexibility may be further constrained to address financial pressures. We will continue to assess the risk to the financial sustainability of the Council during our work for 2021/22.

The Council has the arrangements in place that we would expect to see to enable informed decisions, an effective process for the annual budget setting process and budgetary control, and monitoring to ensure appropriate standards are maintained.

Governance

For 2020/21, the Council has the arrangements in place that we would expect to see to enable informed decisions, an effective process for the annual budget setting process and budgetary control, and monitoring to ensure appropriate standards are maintained.

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

The Council's internal auditors provide an independent appraisal function for the review of internal control systems. Internal Audit undertakes reviews of the main financial and operational systems of the Council, based on a risk analysis of the functions undertaken by service areas. Certain aspects of key financial systems are reviewed on an annual basis. Internal Audit also undertakes fraud investigations and other ad hoc responsive investigations relating to the Council's control framework. This element of its work also contributes to the maintenance of a sound system of internal financial control. The internal audit review did not indicate any lack of controls that were not mitigated or addressed.

The Council has clear and disclosed policies on tackling fraud on the Council's Intranet, which cover the following areas: Anti-fraud and Corruption Policy Statement and Strategy, Fraud Risks, Fraud response Plan, Anti-Money Laundering Policy, Anti-Bribery Policy, Know Your Customers, and Guidance to schools on fraud. Internal Audit is required to be informed of all thefts and frauds by service management as they occur. To ensure that this process works well, it is supported by key corporate services such as Business Change and Information Services and HR reporting on issues to Internal Audit as they become aware of them.

Internal audit prepares an annual Internal Audit Annual Fraud Report to inform the Audit and Standards Committee of the outcomes of the work undertaken by Internal Audit on fraud and corruption.

How the body approaches and carries out its annual budget setting process

The budget setting process is performed annually. As part of the Council's budget setting process, each service is required to develop Budget Implementation Plans (BIPs). These BIPs will detail the Council's spending for the year ahead showing the activities to be undertaken, anticipated pressures and savings to be delivered. These identified pressures per service are quantified. Budgets are monitored during the year by reporting to EMT and Cabinet.

Governance (continued)

How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed.

Revised budgets for the year (if any) go to the relevant scrutiny committees and then a summary of performance is presented to members of the Executive by the S151 officer and any actions arising from this are discussed and agreed by Members, which are then taken into account by finance in terms of preparing for the next budget update. Finance has its own monitoring mechanisms in place which occur on a monthly basis. Any outliers resulting from monthly outturn reports are dealt with, where possible in the normal course of business by the respective budget holders and their service accountants. Financial performance is measured and monitored throughout the year by EMT and Cabinet.

The MTFA is a four-year financial projection of the Council. The annual budget setting process also informs the MTFA which is subsequently reviewed annually. Budgets are monitored by the EMT and Cabinet after each section of the Council has analysed departmental expenditure. Towards the financial year end, identified pressures during the year are considered and factored into the MTFA.

In addition to the above, the Council has three other scrutiny committees that deal with non-financial performance matters relating to fundamental services namely: Children, Young People and Family Support Scrutiny and Policy Development Committee; Healthier Communities and Adult Social Care Scrutiny and Policy Development Committee, and South Yorkshire, Derbyshire and Nottinghamshire Joint Health Overview and Scrutiny Committee. The committees meet on a quarterly basis to review and assess matters concerning their portfolios inline with the Council's objectives. The financial impact (if any) is also assessed and remedial action taken as appropriate.

How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee.

When Key Decisions are to be discussed or made, these are published in the Cabinet's Forward Plan (published towards the end of each week and is a list of the key and non-key Executive Decisions that will be made over the forthcoming three to four month period) in so far as they can be anticipated. These major decisions are to be discussed with Council Officers at a meeting of the Cabinet, and is open for the public to attend except where personal or confidential matters are being discussed. The minutes of the meetings are also available on the Council's website once approved.

Governance (continued)

Furthermore, the Council has the Audit and Standards Committee which was set up with the mandate to oversee and assess the Council's risk management, control and corporate governance arrangements and advise the Council on the adequacy and effectiveness of these arrangements. To the extent that the Audit and Standards Committee is concerned about unexpected outcomes, it will advise Council leadership to engage experts as necessary to give counsel or undertake an exercise as appropriate.

The Leader and Cabinet must make their decisions in accordance with the principles set out in the Constitution in line with the Council's overall policies and budget. If they wish to make a decision that is outside the budget or policy framework, this must normally be referred to the Council to decide. We identified the West Bar Regeneration Project and the Heart of the City Capital project as part of key decisions made the Council in 2020/21.

How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests).

The Council has adopted a number of codes and protocols that govern the standards of behaviour expected of members and officers namely, Employee Code of conduct, Members Code of Conduct, Code of Corporate Governance. The Council has to maintain a Statutory Register of Member's interest, which includes the declarations from councillors of any gifts and hospitality which they have accepted over the value of £50 within 28 days of acceptance. Furthermore, the Members' Code of Conduct requires them to register their disclosable pecuniary interests and other interests. These registers are kept individually on their webpages and is also open for inspection by the public during normal office hours at the Town Hall.

Furthermore, at the beginning of each meeting, all participants are required to declare any interests that maybe related to the matters to be discussed.

Governance (continued)

West Bar is a triangular area within the City and is privately owned and to be developed by Urbo Ltd. Urbo Ltd had intended to undertake redevelopment of the area but faced financial challenges to get the project started. The Council decided to assist, as it was determined that the project's success is key to the City's development considering the Heart of the City II Project already underway.

The project was then divided into phases and the developer identified a financier for the first phase of the project. However, to finance such a project, the financier required a signed lease for the proposed building to be in place.

The Council undertook to sign the lease for sub-letting, effective November 2023, when the building is expected to be completed: in effect, the Council guaranteed the lease of the building subject to a number of conditions being satisfied. The Council, through the developer, then then secured a rental guarantee loan from South Yorkshire Mayoral Combined Authority which is equivalent to acquired the expected rentals for the first six months of the lease term.

The Council sought approval from Cabinet to enter into an agreement for a lease with the financier. Prior to this, the Council engaged Cushman & Wakefield to advise on the transaction. They performed a risk assessment, outlining risks associated with the arrangement, noting mitigating plans already in place and advising on areas where no mitigating measures had been identified.

The Council gave Cabinet sufficient information at the time to make an informed decision. We noted no exceptions to report for the arrangements in place for 2020/21.

Improving economy, efficiency and effectiveness

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

How financial and performance information has been used to assess performance to identify areas for improvement.

The process in respect of performance monitoring is very similar to finance monitoring: variances against outturn are reported and monitored with reasons for variances (both positive and adverse) provided against each indicator, and any resulting actions agreed are then put into place by the respective department responsible for the indications in question. For the most part, adverse indicator variances are dealt with promptly by the appropriate officer/service line head prior to reporting to Members. Performance monitoring is not as regularly reported.

The MTFA is a four-year financial projection of the Council. The annual budget setting process also informs the MTFA which is subsequently reviewed annually. Budgets are monitored by EMT and Cabinet after each section of the Council has analysed departmental expenditure. Towards the financial year end, identified pressures during the year (noted from the budget monitoring process) are considered and factored into the MTFA.

Areas identified to have had challenges, be they financial or performance related, are flagged and reported to the respective committee for further analysis and monitoring together with proposed remedial action to enhance effective, efficient and economic performance. The respective Director for whose portfolio is under scrutiny has to report on progress regularly to the committee pending the matter being closed, with an action plan tracked for improvements.

How the body evaluates the services it provides to assess performance and identify areas for improvement

The Council has a business planning process that is designed to align service activity and objectives to strategic priorities. Service Plans align with the priorities for Cabinet Members. A quarterly performance monitoring process tracks progress against the Council's priorities and highlights any potential risks and issues in achieving these. Performance management information about key objectives is also provided regularly to Cabinet members and may also be considered by Members at the Overview and Scrutiny Management Committee. The Council also prepares a Corporate Plan that sets out the vision for the Council and Sheffield. It includes what the Council will do over the next three years in order to deliver the vision.

The MTFA links to the Corporate Plan and the Corporate Plan drives the spending priorities that inform the MTFA. This includes allocating the overall expenditure budgets for Local Areas. The Director of Finance and Commercial Services and the Head of Strategic Finance are responsible for producing the MTFA in conjunction with Executive Directors and recommends measures to the Executive that will support the Corporate Plan. This is supported by policy options, savings and efficiencies, and both financial and non-financial information to assist decision-making.

Improving economy, efficiency and effectiveness (continued)

Furthermore, there are committees that meet on a monthly basis to review and discuss the various Council service offerings including assessing progress against mandates, noting areas of improvement and establishing remedial actions. To the extent necessary, the committees also discuss any financial concerns relating to the service offerings. Depending on the gravity of the matter(s) discussed, Cabinet and Council will discuss further and implement appropriate actions as guided by the Constitution.

How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve

The Executive Management Team (EMT¹) comprises the Chief Executive, Executive Directors and the Directors of Public Health and Policy, Performance and Communications, and provides strategic direction. It deals with key corporate issues and strategic service issues. It makes decisions, formulates recommendations for the political leadership, and gives a steer on policy issues where this is necessary. EMT can make managerial decisions on how the Council operates or on the application of policy that has already been politically agreed, but not set new policy which is the role of elected members. The Council will take steps to help ensure high standards of ethical behaviour are adopted in partnerships of which it is a member. This will be done through applying the appropriate elements of this framework to all partnership working, where it is relevant to do so. With regard to partnership working, responsibility for Codes of Conduct and policies of this nature (and so for enforcement action for breach of those codes or policies) generally lies with the relevant individual organisation in the partnership.

The significant partnership to note is Sheffield Joint Health and Wellbeing Board which is a partnership between Sheffield City Council, the NHS and a range of partners in the city that aims to deliver a single approach to improving the health & wellbeing of Sheffield residents. The Board has 4 formal public meetings a year, which members of the public can attend and ask questions. It also has a number of Strategy Development sessions throughout the year which are open for members of the public to observe. The Board has also publishes an updated Joint Health & Wellbeing Strategy for Sheffield currently covering the period 2019-24

Furthermore, the Council has established a Sheffield Partnership Board which includes independent members of the Council working together with the Council Leadership including the CEO in their capacity as the Director of Policy and Performance and Communications. The Board has regular meetings to review and analyse performance of partnerships and assess their effectiveness inline with their set mandates. The minutes to the meetings are published on the Sheffield City Board Partnership website. Areas of concern are noted and monitored by the Board and prescribed action is advised for remedy.

¹ title of this group correct for financial year 2020/21

Improving economy, efficiency and effectiveness (continued)

How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits.

The Constitution of the Council contains the procurement strategy, the procurement process and ensuring proper process are in place and approval is given as per the processes are the responsibility of the Director of Finance & Commercial Services. The procurement strategy used on all tendering for every Contract with a Contract Value over £25,000 (Goods and Services) or over £50,000 (Works) must be consistent with this Order and any relevant legislation and this must be confirmed by the Director of Finance and Commercial Services. Where appropriate, the financial, human resources, legal and equalities implications must be agreed with the relevant department before the procurement strategy is presented to the Director of Finance and Commercial Services. Where it is known that for a Contract with a Contract Value under these financial thresholds a Procurement Professional will be allocated to undertake the procurement exercise.

During the Financial Period under review, we noted capital expenditure that includes a number of the redevelopments either in progress or planned as part of the Council led Heart of the City II, which has an approved capital budget of £469m. The project includes a wide range of large and small retail, leisure, office and residential outlets in the city centre. Due to the size and nature of the project, there is a risk that the potential expenditure may not be in accordance with the relevant legislation, standards and policies. In addition, given the impact of Covid-19 on the Council's finances leading to financial constraints, efficient, effective and economic use of resources is critical and therefore an extended review of these capital projects is necessary to ascertain whether the appropriate legislation, standards and internal policies were applied.

Heart of the City II is a regeneration project aimed at developing SCC's city centre by developing idle and dormant buildings therein. The aim is to rehabilitate the area for economic activity. The first phase of the project was completed in 2019 and has since been occupied by various tenants. The second phase and the largest of all has since begun with the Council committing significant funds towards this phase. During the planning of the SCC 2020/21 Audit, we noted that the economy, efficiency and effectiveness of the project needed to be assessed to determine if there is any impact on our Vfm arrangements reporting.

The Council has a monitoring mechanism in place to assess the project on a continuous basis. The project plan implementation was also designed on a phased approach which helps with the management of costs and assessing the viability of each phase prior to commencement factoring present day economic circumstances. This allows the project to be flexible in case there is need for changes to be made in light of present economic circumstances. The Council engages professional experts' opinion to guide the Council's decision-making process when required.

Improving economy, efficiency and effectiveness (continued)

There is sufficient evidence to conclude that the Council does evaluate the performance of the project and continuously identifies areas of improvement on an ongoing basis, despite there being no requirement for such monitoring in the SCC Constitution.

The financial and economic benefits of the project are reported in the Capital Budget Book annually (equivalent to MTFAs) and are revised on an ongoing basis. The Council has also been transparent with the process through public consultations and creating a dedicated website which provides all relevant updates concerning the project. Therefore for the 2020/21 period, there is no identified exception to report on the VFM arrangements.

However, the Council's decisions concerning the project need to be monitored on an ongoing basis to confirm their decisions have no impact on the future Value for Money conclusions especially the financing of the project. This is because the project has been structured such that completed projects will fund the remainder of the project as they start to generate income.

The Council has agreed a recommendation which we will follow up as part of our 2021/22 VFM arrangements work.

The Council faces further challenge and change beyond 2021 which will form part of our 2021/22 VFM arrangements work.

Recommendations

As a result of the VFM procedures we have carried out we have agreed the following recommendation with the Council:

Recommendation 1 – Budget Monitoring

Whilst Covid-19 did have an impact on the Council's budgets, this was lessened by reduced operations, the Council's cost cutting initiatives and government funding specifically to aid relief. Overall, the Council achieved a £0.2m underspend.

However, the financial challenges facing the council remain and post pandemic demand for services is high, whilst future central government funding to support high spending services within the Council is uncertain. In 2021/22 the Council has budgeted to use general fund balances to fund budget deficits. This is projected to continue in 2022/23 and the ability to achieve recurring savings will shape projections for a balanced budget thereafter. Monitoring and maintaining spend in line with the budget, including the delivery of the identified budget savings will be a significant challenge.

Therefore, robust forecasting and budgeting, effective savings planning and ongoing financial controls will be required to ensure that future financial sustainability is maintained.



Section 5

Other Reporting Issues

Other Reporting Issues

Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

Whole of Government Accounts

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 is yet to be issued. We will liaise with the Council to complete this work as required.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Other powers and duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

Other Reporting Issues (cont'd)

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

The matters reported are shown below and are limited to those deficiencies that we identified during the audit and that we concluded are of sufficient importance to merit being reported.

Description	Observation
Debtors	<p>We sampled an item in debtors existence of value £572k. On further inspection SCC had been debiting one 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 fact 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.</p> <p>SCC have agreed to undertake a consolidation exercise to transfer the credits to the correct code, reducing the balance on each code.</p>
IFRS 16 Preparedness	<p>SCC does not yet have a robust system in place to ensure it captures trigger events which would require them to assess lease liabilities.</p> <p>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.</p> <p>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.</p>
Investment Property Valuation	<p>During 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 may be misstated by up to £2.4m.</p> <p>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.</p>

Other Reporting Issues (cont'd)

Control Themes and Observations (continued)

Description	Observation
Members Interests	<p>Our work identified transactions with two previously undisclosed related parties. These related parties were not disclosed by members on their annual declarations.</p> <p>Management should introduce checks to be performed to ensure that members declarations are complete.</p>
Financial Statements Closedown Process – Quality Assurance	<p>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.</p>
Leases	<p>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.</p>

Appendix A

Audit Fees

Audit Fees

The table below sets out the analysis of our fees

Description	Final Fee 2020/21 £	Planned Fee 2020/21 £	Final Fee 2019/20 £
Base Audit Fee – Code work	143,988	143,988	143,988
Proposed increase to the scale fee due to changes in work required to address professional and regulatory requirements and scope associated with risk	TBC	TBC	* 121,517
Total audit fee – code work	TBC	TBC	265,505
Non-audit work - Grant claims – Housing Benefits	** TBC	35,500	35,500
Total non-audit fee	TBC	35,500	35,500

* 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 2020/21 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 are still in the process of agreeing the 2020/21 fees with management and will provide an update once this process has been finalised. We expect fee levels to be broadly consistent with those for 2019/20 for the financial statements work. The change in requirements of the Code in relation to VFM arrangements will also result in a fee variation. The fees will also be subject to approval by the PSAA.

** Since our indicative fee was set out, there have been further issues identified requiring additional testing. Our work is imminently due for completion, following which an updated fee will be communicated to management in line with pre-agreed parameters regarding the need for additional work.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

ey.com

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